Agricultural Trade:

Domestic Pressures and International Tensions

edited by
Grace Skogstad and
Andrew Fenton Cooper

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90-05930/

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Printed in Canada

Legal Deposit Second Quarter
Bibliothèque nationale du Québec

Canadian Cataloguing in Publication Data

Main entry under title:

Agricultural trade

Papers presented at a conference held at the
University of Toronto in January 1989.
Prefatory material in English and French.
Includes bibliographical references.
ISBN 0-88645-108-6

1. Produce trade—Government policy—Congresses.
2. Agriculture and state—Congresses.
3. Agriculture—Economic aspects—Congresses.
4. Foreign trade regulation—Congresses.
I. Skogstad, Grace Darlene, 1948- II. Cooper,
Andrew Fenton, 1950- III. Institute for Research on
Public Policy.

HD9000.6.A37 1990 380.1'41 C90-097596-2

Camera-ready copy and publication management by
PDS Research Publishing Services Ltd.
P.O. Box 3296
Halifax, Nova Scotia B3J 3H7

Published by
The Institute for Research on Public Policy
L'Institut de recherches politiques
P.O. Box 3670 South
Halifax, Nova Scotia B3J 3K6

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Foreword

Agricultural issues have been sources of conflict both internationally and domestically in the 1980s. Internationally, trade barriers and agricultural subsidies have been sources of instability in commodity markets and disputes among governments. Domestically, conflicts have risen among agricultural commodity groups and between primary producers and food processors. Mounting subsidies have strained the fiscal capacity of governments in the industrial countries and environmental concerns have become more intense; both developments have led to increasing controversy over domestic policies relating to the farm sector.

The international trading system has been no more successful in dealing with the contentious question of agriculture. In particular, agricultural trade issues proved difficult to handle both at the GATT Ministerial Meeting at Punta del Este in September 1986 which launched the Uruguay Round and at the Mid-Term Ministerial Review in Montreal in December 1988.

Recognizing the critical importance of dealing with some of these differences, the Institute helped organize a group of international policy specialists to suggest ways to resolve these negotiating conflicts. The result was the policy statement entitled "Reforming World Agricultural Trade: A Policy Statement by Twenty-nine Professionals from Seventeen Countries". In addition, the Institute co-published *World Agricultural Trade: Build-*

ing a Consensus, edited by William Miner and Dale Hathaway, which contained background research on the key negotiating issues.

Following on the analysis of international negotiations, this present volume edited by Grace Skogstad and Andrew Cooper examines the domestic political context which shapes the formulation of agricultural policy. The papers were discussed at a conference held at the University of Toronto in January 1989. The contributors to this volume analyze the roots of agricultural policies and probe the sources of domestic conflicts and international tensions. These factors will shape the potential outcome of international trade negotiations and influence the evolution of global agricultural policies in the 1990s.

As the Uruguay Round moves towards its conclusion, and as Canada reviews its own agricultural policies, this set of studies can contribute to better understanding of the external and internal dynamics influencing Canadian farm policy and the prospects for our agricultural sector.

Rod Dobell
March 1990

Avant-propos

Au cours des années 80, les questions d'agriculture ont été une source de conflits, aussi bien au niveau international qu'à l'intérieur du pays. Internationalement, les barrières commerciales et les subventions à l'agriculture ont créé une instabilité dans les marchés de marchandises et suscité des différends entre les gouvernements. Sur le plan national, des dissensions se sont élevées entre les représentants des divers intérêts en matière de produits agricoles, ainsi qu'entre les producteurs primaires et les groupes de l'industrie alimentaire. Les subventions toujours plus importantes ont fortement diminué les capacités fiscales des gouvernements, dans les pays industriels, alors que les préoccupations à l'égard de l'environnement s'intensifiaient; ces deux tendances ont entraîné une aggravation de la controverse au sujet des politiques nationales à adopter pour le secteur agricole.

Le système international commercial n'a pas rencontré plus de succès en matière de contentieux agricole. Ainsi, les problèmes relatifs à l'agriculture se sont révélés difficiles à résoudre, aussi bien à l'occasion de la réunion interministérielle du GATT, en septembre 1986 à Punta del Este, où était lancé l'Uruguay Round, qu'à la réunion interministérielle d'évaluation, tenue en décembre 1988 à Montréal, à mi-parcours de l'Uruguay Round.

L'institut, étant pleinement conscient de l'importance cruciale que représente le règlement de certains de ces différends, a décidé de participer à l'organisation de rencontres entre spécialistes en politique internationale, afin que des moyens puissent être suggérés pour la résolution des conflits rencontrés au cours des négociations. Il en est résulté une déclaration de principe intitulée : "Pour une réforme du commerce international en matière d'agriculture : une déclaration de principe par vingt-neuf experts en politique agricole de dix-sept pays". Par ailleurs, l'Institut a publié, en collaboration, *World Agricultural Trade: Building a Consensus*, préparé par les soins de William Miner et de Dale Hathaway. Cet ouvrage rassemble des études de base sur les principales questions qui se sont posées lors des négociations.

Dans le même ordre d'idées, le présent ouvrage, préparé par Grace Skogstad et Andrew Cooper, procède à l'examen du contexte national dans lequel s'élabore notre politique en matière d'agriculture. Les articles réunis ici ont fait l'objet d'une présentation à l'Université de Toronto, en janvier 1989. Les auteurs qui ont collaboré à ce volume analysent les origines des mesures politiques prises en matière d'agriculture et cherchent à déterminer les sources de tension qui existent, tant à l'intérieur du pays que sur la scène internationale. Les facteurs retenus constituent une indication des résultats à attendre des négociations commerciales internationales et ils devraient influencer l'évolution des politiques agricoles dans le monde, au cours des années 90.

Alors que l'Uruguay Round touche à son terme et que le Canada est en train de revoir sa politique agricole, cette série d'études devrait permettre de mieux prendre conscience des dynamismes externes et internes qui déterminent cette politique, ainsi que des perspectives d'avenir qui s'offrent à notre secteur agricole.

Rod Dobell
Mars 1990

Contributors

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Grace Skogstad teaches Political Science at the University of Toronto. Her *The Politics of Agricultural Policy-Making in Canada* focuses principally upon the impact of federal-provincial relations and organized producer groups on Canadian agricultural policy. Dr. Skogstad has also published on the administration of trade remedy legislation.

Barry Wilson has a 20-year career in journalism, much of it spent with the Western Producer. He is the author of *Politics of Defeat* and *Beyond the Harvest: Canadian Grain at the Crossroads*, and is currently writing a book on the making of food policy in Canada.

Gilbert R. Winham is a Professor of Political Science at Dalhousie University, Halifax. He is an authority on international negotiations, and has published *International Trade and the Tokyo Round Negotiations*. Dr. Winham is currently a member of the International Trade Advisory Committee of the Government of Canada.

Part One

Agriculture in the Uruguay Round

1

Introduction: Domestic Pressures, International Tensions, and the MTN

Andrew Fenton Cooper
and
Grace Skogstad

Agriculture has assumed the pivotal role in the eighth Round of Multilateral Trade Negotiations (MTN)—the Uruguay Round—currently underway. Indeed, at least one expert argues that the future of the MTN, and that of the entire GATT system, hinges on some progress in terms of agricultural reform.[1] The frustrations and acrimony arising from the Montreal mid-term review, held in December 1988, merely confirmed that an agreement on agriculture acceptable to the United States and the European Community, as well as to Japan, and the so-called Cairns Group (including Australia and Canada), was 'an essential precondition' for the success of the negotiations.[2]

That agriculture should be the central focus of developed industrial countries during the MTN is surprising for at least two reasons. First, the agricultural sector is no longer the central core of the economies of the developed industrial countries. In 1980, the industrial countries of Western Europe and North America were estimated to have less than 10 per cent of their labour force employed in agriculture, with the average for all industrial countries being 7.1 per cent (down from 13.7 per cent in 1965). Moreover, agriculture comprises a relatively small, and declining, element of these countries' share of GDP (3.1 per cent in 1982-84 as opposed to 5.1 per cent in 1964-66) and exports (14.1 per cent as opposed to 21.4 per cent in 1964-1966).[3]

Second, agriculture has always received exceptional treatment in the international trading system. In previous GATT rounds, trade in agricultural products has been largely exempt from rules and regulations governing trade in manufactured goods. These include the prohibition of quantitative import restrictions (Article XI of GATT), export subsidies (Article XVI) and technical barriers (Article XX). The most marked indication of the 'unique' perception of agriculture by national governments in the post-1945 economic order, though, came with the waiver granted to the U.S. in 1955. The long-term impact of this episode has been captured by T.K. Warley: "At a time when other exporters were highly agitated about agricultural trade restrictions, the architect of the trading system and the custodian of liberalism was itself giving primacy to national interests . . . in the van of those who treated agriculture as subject to different trade rules and outside the accepted codes of international behaviour".[4] The U.S. departure from the norms and rules of the GATT system it was instrumental in establishing had the consequence of providing some legitimacy for illiberal practices by other major actors with respect to their own domestic agricultures—symbolized by the European Community's Common Agricultural Policy (CAP) and Japan's Agricultural Basic Law of 1961.

That agriculture now figures so prominently on the agenda of international trade negotiations can only be understood when set in the context of the debate (or debates) about farm support and protection at the domestic level. While the specific mechanisms utilized for the promotion and defence of 'home' agriculture differ considerably between the actors—and include variable import levies, import quotas, export subsidies and other means—collectively they have all tended to contribute to a high degree of stress and contradiction within the international agricultural trading system. Above all, government intervention along these lines has contributed to "extreme and sometimes absurd production and trade distortions"[5] featuring a cycle of surpluses, destabilized prices, heightened demands for internal compensation, the disruption of international agricultural markets, and serious disputes between trading countries.[6]

The purpose of this volume is to examine more closely the nexus between domestic politics and international agricultural tensions, with special attention being paid to the "deep internal roots" of agricultural trade policies within the major developed industrial countries.[7] At the heart of the collection is a discussion of a number of important aspects that have been rather neglected in the literature on agricultural politics and policy. The first of these relates to the treatment of agriculture as a special case in the economic policies of the industrial countries. The focus here is on a comparative examination of the justifications given for differential (and perhaps deferential) consideration of this sector. The second question arises from the striking mix of commonality and diversity among the industrial countries under examination not only with respect to their broader rationale for agricultural intervention *per se* but the social and political environment in which those policies are formulated and implemented. The broadly similar policy objectives for agriculture among the major actors involved in international trading negotiations have been expressed with particularistic national accents. The third aspect of agriculture examined relates to the question of change. This is whether the agricultural agenda is being transformed through a combination of external forces and a realignment in state/societal relationships. Considerable emphasis is placed throughout the book on bringing the political dimension back into the analysis of agricultural policy. By doing so, it is hoped that this work will cast a somewhat different light on the agricultural factor in international trade negotiations.

The impact of domestic influences on trade negotiations is, of course, not unique to the agricultural sector. As Gilbert Winham suggests in his chapter, domestic constituencies and institutions have had a crucial impact on the international trade negotiation process. Concrete signs of the ability of domestic forces to shape substantially the national approach to economic policy through their access to the decision-making process is provided by Winham's analysis of both the U.S. Trade Act of 1974 (which provided for the establishment of a system of private-sector committees to supply advice and information to the American trade negotiators) and the Canadian system of internal consultation on the MTN (through the International Trade Advisory Committee [ITAC] and the various Sectoral Advisory Groups on International Trade [SAGITs]).

In examining why agriculture has been treated so differently from other sectors two lines of argument must be considered. The first of these is highlighted by Peter Finkle and Barry Wilson in their chapter. They argue that the agricultural sector has an intrinsically distinctive character that is recognized by governments and the non-farming public, and that allows special rules for the promotion and defence of agriculture.

In all industrial countries, government intervention on behalf of agriculture has been buttressed by non-economic arguments pertaining to the social value of a healthy domestic agriculture. In the United States, Jeffersonian ideology conceived of the farmer as the backbone of society, embodying the values of independence and individualism that are fundamental to liberal democracy.[8] While agrarian fundamentalism was never as strong in Canada as in the United States, Canadians, too, share an attachment to the family farm. Congruent with this have been beliefs that farmers work harder, take more risks, and are more vulnerable to forces beyond their control. Cumulatively, such perceptions create a view of farmers as relatively disadvantaged compared to urban socio-economic groups and hence in need of different treatment. In Australia, perceptions of the unique and special character of agriculture are captured by the notion of "countrymindedness;" in Europe, by the high value accorded to peasant farming; and in Japan, by the symbolic importance of rice culture.

The CAP, to give just one example, has often been credited with making the overall economic adjustment process in the 1970s and 1980s much less difficult in the EC.[9] In international terms, agricultural production has become an important measure of a country's autonomy and/or dependence. On the one hand, the U.S. activation of the concept of food power (with respect to the 1973 soybean embargo) became in many ways a symbol of America's relative economic decline in that it was directed "to the people who thought our economic power was low."[10] On the other hand, this same episode had a 'shock' effect in Japan and Western Europe, bringing to the fore traditional sensitivities concerning food supplies which lingered long after the immediate crisis in the sense that food security became equated with self-sufficiency. Two Australian specialists have described the sense of insecurity in the Japanese case as a deeply entrenched one: "The Japanese obsession with food security has deep historic roots in memories of periodic famines and food shortages over past centuries, and in the realization that Japan's location and extremely high ratio of population to agricultural land make it vulnerable to external developments that could threaten food supplies."[11]

The second line of argument as to why agriculture has been treated differently gives less weight to values and more to state/societal relations. Most commonly, it is stated that the differential treatment given to agriculture reflects the political clout of the farming community. This view has a solid basis. The farm lobbies in all of the countries under examination are highly mobilized, vociferous, and persistent in their demands. Moreover, these lobbies have clearly had considerable success in influencing the economic agenda. This is especially true where there is a 'peak' organization around which agrarian demands can be focused, as in Japan with Zenchu, the Central Union of Agricultural Cooperatives; in the EC with the COPA; and in Australia with the National Farmers' Federation. While characterized by greater organizational pluralism, farmers in North America are also highly mobilized.

The influence of the farming community has been heightened by country-specific institutional factors. In Japan the strength of the agricultural lobby has been increased by the uncorrected bias of the electoral system, which has allowed the vote of one rural voter to equal the weight of three to four urban dwellers. As a result, the Liberal Democratic Party, which has traditionally benefited from this system, has an extremely large, well-entrenched 'farm bloc' in the Diet. In the EC, proportional representation and multi-party systems in a number of member countries give rise to coalition governments whose survival is contingent upon the support of farm-based parties. Moreover, the structures and rules of decision-making within the European Commission grant agricultural decision-makers substantial authority and autonomy, which the well resourced agricultural lobby is able to capitalize on in the form of a stable and close policy network. In the U.S. state-wide elections for the Senate, the short electoral cycle in that country and the system of primaries (an excellent example being the showcasing of farm issues during the 1988 Iowa contest), keep agrarian issues on the agenda. The considerable fragmentation of Congressional authority to subcommittees necessitates compromises and alliances across commodity sectors and states. While weak party ties facilitate the necessary log rolling, incrementalism predominates as the separation of powers creates multiple opportunities to block and delay. Thus, entrenched farm interests sustain themselves.[12] In Canada the simple plurality electoral system, regionally specialized agricultural economies and the federal system combine to strengthen the position of agricultural interests. And in Australia the considerable number of marginal seats situated in the country enhances the importance of the rural vote beyond what farm numbers alone would warrant.

This line of argument, however, has to be decidedly nuanced. The claim that "one sector of the population, through active lobbying and political cohesion, [can] derive a continuous stream of benefits in the form of transfer payments from the economy at large"[13] requires further elaboration in order to capture the crux of the pattern of domestic structures in a comparative mode. The domestic arenas vary significantly from country to country. Thus, for example, it has been clear from the start of the Uruguay Round that at the heart of the U.S.-EC dispute is a fundamental difference of philosophy regarding the appropriate value to be placed on the non-economic objectives of agricultural policy—the balance to be struck between agriculture as a 'way of life' and as a commercial activity. Moreover, there are appreciable differences across countries in the relative autonomy of political decision-makers of organized producer interests, and governments' capacities to formulate effective and coherent agricultural trade strategies. These differences are best highlighted by the comparative analysis of the internal process of decision-making that constitutes the central concern of this volume.[14]

When examining the significant elements of the domestic political structure in regard to agriculture, both C. Ford Runge and Greg Frazier showcase the role of Congress in the U.S. decision-making process. In his overview of foreign economic negotiations, Runge emphasizes the internal legislative dynamic in trade reform, pointing out, in particular, the importance of the 1990 Farm Bill as an indicator of the American commitment to a reform package. According to Frazier, what is crucial for an understanding of the Congressional system is an awareness that it is not a rational system but a system fuelled on a mix of ideas, ideology, personalities, and media input. While slow and evolutionary, it can be highly reactive and decisive on specific issues.

Alan Butt Philip's chapter shows the importance of the role of decision-making rules and structures not only within the European Commission, but within individual member national governments of the EC. France, in this regard, has traditionally received the bulk of the attention, with "French ideas and French objectives" being credited for the entrenchment of the CAP as the "cornerstone" of Western European unity.[15] Butt Philip illustrates, though, that France has not acted alone in its defence of the CAP. Indeed, support for the CAP has been strongly identified as being in the 'national interest' by politicians in FRG, the Netherlands, and Eire (to name just the most notable examples). The entry of Spain, Portugal, and Greece into the EC merely reinforces this point.

Young Whan Kihl, in his comprehensive study of Japan's agricultural trade policy, touches on all the major influences on the Japanese decision-making process. One aspect of this process that does stand out in comparative perspective, nevertheless, is the role of the bureaucracy. As Kihl suggests: "Historically, Japan's highly efficient bureaucracy dominated the policy formulation process." Certainly, the Japanese Ministry of Agriculture, Forestry and Fisheries has been at the centre of domestic resistance in Japan to trade liberalization. Kihl argues that the influence of the bureaucracy has eroded in the 1980s as that of specialized politicians has increased. The patterned pluralism that now characterizes Japanese decision-making makes reform of agricultural trade policy much more possible than it was in the past.

As Andrew Fenton Cooper suggests, Australia may be considered an anomalous case with respect to agricultural policy. The dominant feature of the Australian decision-making process has been the key role played by the Australian Labor Party in situating agricultural policy within a broader agenda of economic reform. The focus of the latter has been the establishment of a new pattern of internal negotiation through instruments of corporatism, rationalization and deregulation, bureaucratic reorganization and export enhancement. Cooper's main point is that, largely as a consequence of domestic political pressures, this agenda was externalized (most notably, through the Cairns Group). Australia, it is concluded, has played a sophisticated 'two-level' game in its current agricultural trade policy.

Grace Skogstad, in her paper on Canadian domestic politics and agricultural trade reform, highlights the impact of federalism on Canadian agricultural trade policy. Canada's federal system shapes the pattern of internal negotiations in this issue-area and fosters distinctive types of alliances between sub-national governments and producers. The result is a fragmented decision-making process which renders difficult a coherent international trade strategy for agriculture.

Turning to the theme of change in the pattern of agricultural policy and politics, a number of features have to be taken into account. One is the pressure on the agriculture sector from overall trends and developments in the international political economy. Broadly speaking, the latter include the globalization of the world economy, the deregulation of financial markets, and the massive expansion of international capital flows. All of these forces, as Don Knoerr points out in his contribution, have had (and will continue to have) a profound impact on domestic primary producers, the large bulk of whom continue to be family farm operators.

Just as crucially, there continues to be pressure for change in agricultural policy at a nation-state level. The U.S. remains the traditional demander for agricultural trade liberalization. But it has been joined in this effort by the member countries of the Cairns Group, comprised not only of Australia, Canada, and New Zealand, but also Third World countries in ASEAN, and Latin America. A country with a particularly large stake in the future of the MTN process in terms of agriculture is Brazil. As traced by Orde Morton, Brazilian agricultural policy reflects the economic dilemma as well as the economic potential of that country. Set against the intricate and intense background of the debt crisis and the internal social tensions, one thing seems clear: the priority placed by the Brazilian government on access to foreign markets for its agricultural produce. Indeed, the strength of feelings concerning protectionism by the developed industrial countries and their willingness to utilize any diplomatic tools at their disposal came to the fore at the GATT mid-term review in Montreal, where Brazil (together with other Latin American countries) linked agreement on all the non-agricultural agenda items to movement on agricultural reform.

The impact of this external pressure cannot be discounted completely. One Japanese expert, for instance, has written that agriculture in his country has been 'under siege', a siege that has been instrumental in liberalizing Japanese citrus and beef.[16]

Outside pressure appears most effective, though, when there has been a realignment of internal forces which weakens resistance to liberalization. This realignment may come about, as in the case of the Reagan administration, largely because of ideological reasons. Or, as in the case of Japan, it may result from the impact of wider domestic national economic concerns such as that by the Japanese business community—and particularly the Keidanren (Federation of Economic Organizations)—that trade be a two-way street. In the EC, albeit in a more muted form, change is being precipitated by the stress of budgetary pressure. With the CAP accounting for over 70 per cent of the Community's budget, spending for industrial and social policy has suffered. In Australia, sheer economic necessity has strengthened support for trade liberalization. As Ed Rossmiller aptly puts it, each participant has its own specific reasons for wanting change. William Miner concurs, arguing that changes in domestic policy are not made because an actor is "leant on" by external pressure. Rather changes come about because domestic considerations and priorities create an internal climate which allows a new direction to be taken.

Fostering that climate for change may be a growing disjuncture between agrarian ideology and reality. The commutative justice argument has eroded, as evidence grows that farm incomes on average equal or exceed non-farm incomes, that large commercial operators are the major beneficiaries of government support and protection, and that new production technologies and enhanced scales of production have reduced the instability and risk in farm markets. And such benefits seem to have been gained at the expense of smaller commercial farmers in North America who face problems of debt and chronic economic insecurity.[17]

This is not to suggest that these forces of change are irrevocable. If the bicycle of trade liberalization can move forward, it may also topple over or at least stand idle for a while. The latter scenario suggests a period of immobilization—a scenario reinforced (and rationalized) by any upward movement in commodity pressures which relieves the costliness of farm support measures. The first scenario, alternatively, suggests an intensification of tensions over agricultural issues not only between the U.S. and the EC (with the contentious hormones issue perhaps acting as a harbinger for the future) and the U.S. and Japan (especially on the rice import issue), but within the agricultural trading system generally.

Notwithstanding the frustrations and acrimony arising from the impasse of the mid-term review, there has been considerable movement in agriculture during the Uruguay Round negotiations. At the very least, the issue is 'on the table' where national differences in objectives and instruments of agriculture policy can be discussed. From a diplomatic perspective, what will take the reform process further will be constructive measures in the way of confidence-building; the astute use of the windows of opportunity in terms of the transition in negotiating teams and the electoral cycles of the various actors, and a real commitment to address the agricultural question at a multilateral level. The external bargaining dynamic, however, cannot obscure the importance of domestic politics in this negotiating process. Nor should it. Despite the search for international solutions for internal problems, in the end, only the decision-makers at the national level can effectively address the issue of agricultural reform. Only by focusing on the internal as well as the external dimension of the agriculture question, therefore, can the complexity and the emotionalism of this issue-area be fully understood.

Notes

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6. See OECD, *National policies and agricultural trade*, (Paris: 1987), 7, 24.

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8. James T. Bonnen, "Institutions, Instruments, and Driving Forces Behind U.S. National Agricultural Policies," 21-39 in Kristen Allen and Katie MacMillan, eds., *U.S. - Canadian Agricultural Trade Challenges*, (Washington: National Centre for Food and Agricultural Policy and C.D. Howe Institute, 1988.)

9. See, for example, Simon Harris, Alan Swinbank, and Guy Wilkinson, *The Food and Farm Policies of the European Community*, (Chichester: John Wiley, 1983), 330.

10. See, for example, Leon Hollerman, *Japan's Economic Strategy in Brazil: Challenge for the United States*, (Lexington, MA: Lexington, 1988), 225.

11. Aurelia George and Eric Saxon, "The politics of agricultural protection in Japan," in Kym Anderson and Yujiro Hayami, eds, *The Political Economy of Agricultural Protection: East Asia in International Perspective*, (Sydney: Allen & Unwin, 1986), 98.

12. Bonnen, *op. cit*; William P. Browne, *Private Interests, Public Policy and American Agriculture*, (Lawrence, Kansas: University of Kansas, 1988).

13. Timothy Josling, "Agricultural Protection and Stabilization Policies: Analysis of Current Neomercantilist Practices," in Jimmye S. Hillman and Andrew Schmitz, eds., *International Trade and Agriculture: Theory and Practice*, (Boulder, Col.: Westview, 1979), 150.

14. Gilbert R. Winham, *International Trade and The Tokyo Round Negotiation*, (Princeton NJ: Princeton University Press, 1986), 347-49, 390-93; C. Michael Aho and Jonathan David Aronson, *Trade Talks: America Better Listen!* (New York: The Council on Foreign Relations, 1983), 91-2; Henry R. Nau, ed. *Domestic Trade Politics and the Uruguay Round*, (New York: Columbia University Press, 1989).

15. Agra Europe, *The Common Agricultural Policy's Role in International Trade*, Special Report No. 19, (London: 1983), 73.

16. Yujiro Hayami, *Japanese Agriculture Under Siege: The Political Economy of Agricultural Policies*, (London: Macmillan, 1988), 1.

17. Bonnen, *op.cit.*, 37; Michael Franklin, *Rich Man's Farming*, (London: Routledge, 1988).

2

Is Agriculture Different? Another Round in the Battle Between Theory and Practice*

Barry Wilson
and
Peter Finkle

Introduction

Governments everywhere treat agriculture as somehow special. Yet most of those charged with the economic study of agriculture maintain that it should be treated much like other sectors of the economy. The ultimate expression of this strange conundrum can be found in the on-going negotiations of the General Agreement on Tariffs and Trade (the GATT) in which many of the advisers and analysts who work on general economic trade matters in their respective countries are tabling positions that may prove unacceptable to their home governments. Indeed, most of these advisers share a common perspective with their colleagues from other countries. Their problems are with the politicians in their respective countries who insist on treating agriculture as essentially different from other sectors of the economy and for what seem to them to be irrational reasons.

The theory and perspective of classical economics on agriculture is, in fact, widely divergent from the way that agriculture is treated by governments practically the world over. Economic theory suggests that trade between nations in agricultural and other products should be made as free and unsubsidized as possible so that each country will tend to produce what it is best fitted for and all will enjoy the benefits of greater overall productivity and lower prices. This, of course, would reduce the number of farmers and the variety of what is grown in some countries, but these states would benefit in that their farmers would "adjust" out of agriculture and move to other more productive activities. This would enable consumers in these countries to purchase lower priced, more efficiently produced food on the world markets as needed.

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* The opinions expressed in this paper do not necessarily reflect the views or policies of Agriculture Canada.

Classical economic theory even provides hope that eventually farming would continue as a productive enterprise after adjustment. As farmers move off the land and its value declines, the price of this basic input to agriculture will eventually fall so low that perhaps some commodities could be produced. These farmers, after land values have declined may not, however, be the ones who originally owned the land, and almost surely, will be fewer in number. This economic perspective may be reasonably accurate so far as it goes. The problem is that the economic approach does not go far enough in at least two ways.

First, this is a macro approach that does not focus on the farmer and his family as they struggle to find some other way to live. Instead, the economic analysis notes only that the farmer "adjusts" to more productive activities. The individual drama and trauma of adjustment is ignored as is the real risk that alternate occupations will not be available. In a sense, the dismal science of economics is somewhat overly optimistic in its selection of descriptive words. The word "adjust", after all, suggests a successful transition from one state to another; in reality the success or failure of the transition process of any one individual or family is a question mark. By assuming a successful transition, the pain and trauma of disrupted lives is somehow lost and the focus instead is on the supposed macroeconomic gains to the nation.

A similar problem arises in the way the traditional economic approach overlooks the difference between various occupations. It assumes that the job of being a farmer is "adjustable" to some other occupation, the value of each being comparable only in economic terms. That there might be a non-economic value to the individual or to the society associated with being on the land is not encompassed in an economic analysis. Indeed, all the non-economic values associated with farming are not so much devalued or opposed as ignored by traditional economic thinking.

The same lack of realism and over-optimism taints the classical economic approach to food security. The bland assurance that a nation does not have to be self-sufficient because it can always buy its needs on the world markets simply ignores both the history and present realities of food policy. Recent history is replete with nations, whether Western, Third World or Communist, being short of food. Such shortages in the case of the lucky countries result only in the nation being subject to various forms of economic blackmail; the less fortunate endure famine. There is, in short, no margin for error in national food policy without incurring serious, even critical, consequences. The fact is that a sensible food policy always involves aiming for a surplus. Given the consequences of a shortage, a considerable price may be worth paying for an assured small surplus; put another way, the pursuit of some level of self-sufficiency can be justified even at considerable costs.

The analysis and prescriptions offered by the classical economic approach are, simply put, unrealistic. The approach is overly optimistic in its analysis of the problems of individual farmers forced to adjust out of agriculture and ahistorical in its estimation of the costs, benefits, and risks involved when nations permit themselves to be overly dependent on the market for food. Despite the unreal assumptions of the classical economic approach it has become a normative standard for many policy analysts.[1] In effect, epigrams about markets, competition and efficiency have become a substitute for argument and a means to avoid posing the difficult questions that concern the nature of the society we want, the place in it for farmers, the food policy we are comfortable with, and the price we are willing to pay to obtain these important goals. These ultimate questions are either assumed to be embodied in the economic shibboleth of maximized efficiency or ignored.

To date, the farm community, the larger public and, to a significant degree, the Government of Canada have resisted the full implications of the classical economic approach to agriculture, though its formulations, vocabulary and concepts have become almost conventional wisdom. The political, social and economic reasons that have been deployed in Canada to counter the full implications of the classical economic approach are explored in the next section.

Separating the (Farm) Wheat From the (Economic) Chaff

Canadian farm leaders and their political supporters never seem to tire of telling the world exactly how important they are to the national economy. Even the country's political leaders have fallen prey to the temptation at times. "The Canadian agriculture and food industry is a pillar of the country's economy," Prime Minister Brian Mulroney and the 10 Premiers said in late 1986 as they issued their latest version of a "national agriculture strategy".[2]

There are a number of ways to gauge that importance. In strict demographics, farmers are a declining factor in Canadian society—less than 4 per cent of the population identified in the 1986 census and perhaps half that if Statistics Canada used a less generous and more realistic definition of a farmer.[3] But the economic impact of the sector is not on the same slope of decline. Depending on the degree of indirect value added, from cannery to meat packing plant and from grocery manufacturer to supermarket, agriculture produces more than $50 billion worth of sales. It represents a variable but significant portion of the GNP, and employs one in six working Canadians. In provinces such as Saskatchewan and Prince Edward Island, the proportion is much higher. For example, in Saskatchewan agriculture accounts for 15 per cent of all economic activity.[4]

Clearly, the agriculture and food industry is one of Canada's more important economic sectors. Both levels of government, however, have chosen to treat it as more than just another economic sector subject to normal market and political laws. Governments have, in effect, conferred a special status on the agriculture sector, a status based on economic, social and political considerations. A number of characteristics distinguish farming from other economic sectors, making it an imperfect candidate for "normal" economic analyses or political palliatives. It is a small business sector unlike other small business sectors, an economic island distinguished by some financial and political realities that make it unique.

Those who challenge the farmer's right to special treatment are prone to argue that farming is a small business enterprise like many others, exhibiting labour, capital, cash flow and marketing characteristics typical of such an enterprise. In many ways, they are correct, at least in a narrow way. Farmers, are, in fact, small businessmen who often share the problems and the political conservatism of their counterparts throughout the economy. Small margins, a low return on investment and labour, and an underlying market vulnerability are characteristics which farmers share with many other small businessmen.

In fact, the problems of low and uncertain rates of return on investment and labour are often considered worse in agriculture (excluding the supply managed sector) than in other small business sectors. In 1985, Agriculture Canada economists calculated that the 24-year average return to farming relative to capital value was less than 1 per cent, smaller than comparable rates in other businesses.[5] In 1987, the Agricultural Council of Ontario reported that total average net income over the four years 1980-83 on 93 surveyed commercial farms was $24,735 in 1979 dollars compared to more than $100,000 for a range of other businesses and investors.[6] And in 1986, a survey of Alberta farmers with gross sales of $250,000 or less reported a return on investment of less than four per cent and most farm incomes were well below that, including tens of thousands in a negative position.[7]

These consistently low rates of return, while not unique to agriculture, must be considered within the context of other economic realities faced by most farmers. Theirs is one of the few businesses where investment decisions, production projections and financial planning depend on factors entirely outside the control of the businessman. Every spring, the farmer must invest tens of thousands of dollars in seed, chemicals and other supplies without the slightest guarantee he will produce a crop or (once again, excepting supply management) at what price that crop ultimately will be sold. Drought, politics and market wars can take production and returns expectations on a roller coaster ride during a single season. Crop insurance, stabilization, and initial prices for some crops can remove some uncertainty but not all. As a capital intensive business, money must be borrowed for the long term while markets and prices are short term. In the minds of many farmers and their defenders, these economic realities put special pressures on the sector and require income support, credit and tax policies that differ from those appropriate for other sectors.

Rules and policies designed just for farmers are rejected by many economists and businessmen who are suspicious of special treatment for any sector. In 1985, for example, the Canadian Chamber of Commerce overwhelmingly rejected a proposal from the Regina Chamber that the business lobby group support a call for special concessionary government financing programs for farmers. The majority of the delegates to the Chamber's annual meeting, led by British Columbia Chamber Vice-President and soon-to-be Premier William Van der Zalm, were unsympathetic. "I do not believe it is fair to design a program for one sector at the expense of others," he said.[8] But even those who reject financial special status for farmers cannot deny that the sector enjoys a special political status fuelled by urban sympathy, a measure of farmer solidarity on the issue of their special place in society and a government view of the sector as both politically important and economically useful as a tool of regional development.

Farmers enjoy an undercurrent of sympathy among urban voters which confers a political power on them quite out of proportion to their numbers. It might be called the Walton Syndrome—most urbanites are attracted to the idealized image of the countryside: the hard working farm family, the noble virtues and traditional values which they imagine motivate their rustic compatriots. It is not a lifestyle most urbanites would care to live themselves but they are glad someone is doing it and they are willing to pay a bit to see it maintained. It is not a universal sympathy as evidenced by a 1987 outburst from the *Toronto Sun*, the voice of the conservative, angry working class. "Our farmers had better get used to the idea that some of them will have to find other work," it thundered. "We have a glut—of food, rhetoric, competition and Canadian farmers demanding aid."[9] More typical of urban press reaction to farmer cries for help was a comment from the Toronto *Globe and Mail*, voice of establishment capital: "Virtually all farms are family owned, farmers exist in every region, farmers vote in significant numbers, most farmers fall under the rubric of small business and the concept of the 'family farm' holds a place in the Canadian psyche that Motherhood envies."[10] So when the Prime Minister justified farm subsidies in 1986 by suggesting "when farmers are hurting, the nation is hurting", he could safely assume that most of the nation was nodding its head. In fact, private Angus Reid and Associates polling that summer confirmed a high level of urban sympathy for the farmers' plight.[11]

Farmers contribute to their own cause by promoting what might be called a "rural ideology"—the fervent belief that the family owned and operated farm is the appropriate food producing unit. A corollary is that the farm sector and food production have special virtues which give society an obligation to support agriculture and to guarantee its preservation through rough times. It is supported by the argument that the farm unit has a social as well as an economic value—maintenance of a broadly based family farm economy preserves small towns and the rural society which has always been a core of the Canadian psyche. Farmers on all sides of the ideological fence adhere to this belief, although differing partisan political outlooks dictate that precise manifestations of this ideology will vary. In Canada, groups such as the National Farmers Union are blunt in their demand for subsidies if market returns are not adequate. Others like the Canadian Cattlemen's Association are more subtle. They assert a "live-or-die-by-the-market" philosophy while quietly lobbying for stabilization programs or special tax treatment which would guarantee public funding to counteract the vagaries of the market. A belief in the necessity of keeping the farm sector alive, with special measures if necessary, is one of the few ideas to unite the usually fractious farm community in a common cause.

Governments are often sympathetic to this farmer-promoted view. This is perhaps because some politicians believe it and perhaps because it coincides with their political and economic goals. Politically, the farm sector carriers weight in both urban and rural communities. Economically, the food industry has been recognized as an effective tool of regional development. It is one of the few industries to locate in traditional have-not regions. It is a national mega-project which is spread across the country, from cattle ranching in the British Columbia interior and proposals for egg production in the Northwest Territories to dairy farming in

Newfoundland. In Newfoundland's perpetually depressed economy, the $45 million in annual farm cash receipts is not insignificant. In New Brunswick's economy, the McCain's empire based in the Upper St. John River Valley and the dairy processing industry in the Sussex area are important financial boosts. In Atlantic Canada, food and beverage industries account for more than one quarter of all manufacturing activity and thousands of desperately-needed jobs. On the Prairies, meat packing plants inject hundreds of millions of dollars each year into the regional economy and as the recent spate of provincial subsides to Cargill, Gainers and Intercontinental attest, expansion of the industry is seen as an important step toward regional economic diversification.

For social, economic, political and ideological reasons, then, Canadian farmers have, so far, successfully staked a claim to special status in the Canadian polity. A brief examination of other countries around the world will show that such a special status for agriculture is typical although it takes different forms in other countries.

The Place of Agriculture in Other Nations

In virtually every country in the world the demographic and economic status of the agricultural sector provides little indication of the political power that is, or is not, wielded by farmers. The special role of agriculture arises because political power is generated as much or more by symbols, ideals, myths and values as by economic status or numbers of people. The fact is that everywhere nations have infused agriculture with a special status, either positive or negative.

Agriculture in the Third World should hold a special and powerful political position by virtue of the sheer number of farmers and the economic dominance of the sector. This is rarely, however, the case. The need to have cheap food for urban masses often has prompted interventions. As put by Solidarity in the early years of the unions' demonstrations against the Polish government, hungry workers eat their bosses. Moreover, most Third World countries view the traditional farmer's attachment to his land as a force that works against nation-building and modernization. This perception leads to attempts to devalue agriculture and farmers. Agriculture has generally received anything but a favoured standing in the Third World and is "taxed" to support other economic undertakings. The point here is not to evaluate this tendency, but rather to show that in the Third World, agriculture is not considered an economic activity like the others, but is viewed as something special. It is perceived as an economic activity that carries with it certain social and value tendencies that are seen as negative.

The Communist world, too, treats agriculture as an activity that promotes powerful social and value tendencies; it is by no means seen as an economic activity like others. Depending on the interpretation accorded to Marx and Lenin, the role of agriculture may be perceived as negative as in the Soviet Union or positive as in China or Cambodia. Traditional Marxists have viewed agriculture and farmers as carriers of feudal traditions and outmoded values. Indeed, through most of Soviet history, farmers with the traditions of self-sufficiency, land ownership and strong conservative and religious tendencies were considered to be the class enemies of the proletariat. Stalin did his best to industrialize agriculture by forcing the same production patterns on agriculture as were being instituted in the manufacturing sectors. It is only recently, and forced by economic necessity, that the place of agriculture is being reconsidered.

Other Marxist states like China, Cambodia and Cuba have formulated quite positive images of agriculture and farming. The peasant class of farmers, in their desire to get and work the land, has been seen to offer the best chance to oppose foreign, western influences. This permitted the farmers to be the base on which a revolution could be made. Without delving further into revolutionary theory, the facts are clear: agriculture in the Communist world is not considered to be an economic activity like others.

In the western world, the situation is the same. However much economists may theorize, agriculture is not seen as an economic activity like the others. In the West, agriculture is infused with positive myths, values, and ideals. The sturdy yeoman farmer whom Thomas Jefferson saw as the backbone of the Great Republic has remained a potent American symbol. Similar ideals animate Canadians, especially with regard to rural life and values. In France, the peasant farmer was and is the font of special aspects of French culture. The Israelis have created their own agricultural movement characterized by the kibbutzim. These collective farmers have made the kibbutz the centrepiece and model of Israeli culture despite the fact that only 3 per cent of the population actually live on these collective farms. Israeli agriculture is not an economic undertaking like the rest.

From Sweden to Japan, from China to Zambia, agriculture and farmers are viewed as a special economic class infused with positive or negative connotations and accorded an appropriate special status. Agriculture in virtually all countries is simply not a neutral activity. Despite what seems to be the clear and nearly universal understanding that agriculture is different and, as a consequence, should be accorded special treatment by government, an alternate view persists that agriculture is much the same as other economic activities and should not be accorded special status. That alternate view has found particularly strong expression in the past year or so in Canada, and at least at the Presidential level, in the United States. The next section examines why the classical economic view of agriculture has become legitimized by government in North America and the possible consequences for Canada if that approach persists and strengthens.

The New Direction: Assault on a Special Status?

In his 1987 justifications for government support of farmers in their time of need, Prime Minister Mulroney took his argument well beyond the simple preservation of a vital economic and social sector. It was, he insisted, the preservation of a world class industry. "We believe that Canadian farmers, if uninhibited and unfettered, are tremendous producers who can compete with anyone in the world" said the Canadian Prime Minister. "It is only when they are crushed by subsidies coming at them from the competition that they cannot compete . . .".[12] Farmers instinctively applauded this type of political argument, accustomed as they are to hearing it from their political leaders. They may even believe it themselves, although the Canadian tradition has been to claim world superiority and then to line up behind protectionist support measures which belied the claim. This time, however, things may be different. The Prime Minister may actually have meant it. If he did, then the consequences for the Canadian farm sector could be far reaching.

Behind the Prime Minister's words may lie a changing government approach to Canadian farm policy. It is the concept of the farmer as a businessman, forced to depend on special government help only because his competitors had a subsidy advantage. The Prime Minister's assertion may implicitly be a significant departure from the idea of special status.

For several years, farm policy researchers both in and out of government had been exploring a farm policy philosophy, which if adopted, would mark a break from almost a half century of interventionist, protectionist policy. It would be a philosophy rooted in the ideal of Canada as a trading nation, unable to isolate itself from trading competition with other countries. Except in unusual circumstances (or in special cases such as that of beginning farmers), it would be a policy based on the classic economic model of "survival of the fittest", a market philosophy geared to the needs of the most efficient and competitive farmers. According to this market-oriented approach, those in need of chronic help should be allowed to go under. No government would announce it in such terms, of course, and in the Canadian tradition there would be nuances and exceptions, but if adopted as official policy, such a market philosophy could have implications for the type of farmer eligible for government aid in the future and for the kind of marketing board structure that the government would be willing to support. The discussions continue within the government and other policy options are still under consideration, but the debate has been joined and evolution towards a new approach appears to be underway. If implemented, a true market philosophy oriented to world competitiveness would challenge Canadian agriculture policy traditions and erode the special status traditionally accorded farmers.

The genesis of the rethinking in policy lies in several sources: despair over the ineffectiveness of traditional policies to protect farmers from the fall-out of the mid-1980s trade war; the confluence of a growing general ideological conservatism married to the business-oriented outlook of the Progressive Conservative government; the ever-increasing chorus of economists and their business allies arguing that domestic policies must be changed if Canadian agriculture is to compete in the trading world of the future; and a more market-oriented viewpoint within the bureaucracy.

The statistics from the mid-1980s are all too familiar. An inflation-fuelled borrowing boom in the late 1970s and early 1980s, coupled with commercial interest rates which peaked above 20 per cent, left tens of thousands of Canadian farmers saddled with unmanageable debt loads at very high interest rates. After 1984, the problem was compounded by an international trade war which dropped the prices for many export commodities near historic lows. The farm community was in trouble and no amount of money provided by the new Conservative administration seemed to help. Despite billion dollar subsidies, close to 50,000 farmers were considered to be under financial stress by 1986 and the farm debt had edged over $22 billion.[13] The government was at a loss for solutions. "It's frustrating to do all we have done and things are still poor", Agriculture Minister John Wise complained in 1986. "The government will do more, but I have no magic wand."[14] In fact, senior officials privately advised him that there was little the government could do. Their view was shared by many others who believed that lower interest rates and improved cash flow would likely have to come from the market since government deficits preclude major increases in farm assistance programs in the future.

For years, many government officials in a number of departments, including Agriculture Canada, were becoming more sceptical of public sector solutions. Through the 1980s, they had grown uneasy about regulation and what they saw as statist solutions to market problems. Some officials fought Eugene Whelan's proposals for supply management in the livestock sector.

Some covertly joined private sector lobbyists in the early 1980s to fight Whelan's proposals for a food exporting Crown corporation, Canagrex.[15] Others complained about what they saw as inefficiencies within the supply management system or worried about Canada's competitiveness in foreign markets.

It was an evolving mindset among some officials which found willing listeners in the Conservative government, naturally inclined to be suspicious of government and suddenly aware that their best efforts to aid agriculture were not enough. Officials inside government drawn to a market viewpoint found important allies among academic economists and the business sector. Through the 1980s, a constant stream of analysis from economists and businessmen provided an intellectual framework for a market oriented approach by arguing that government regulation and protectionism were part of the problem. Such policies, they argued, allowed inefficiency to survive and insulated Canadian farmers from the real world of the market. In 1981, the Economic Council of Canada accepted the analysis of economists from the University of Guelph and the University of British Columbia that supply management's inefficiency was costing consumers more than $1 billion annually in higher prices.[16] In 1985, the Royal Commission on the Economic Union and Development Prospects for Canada concluded that while Canadian agriculture deserves to be supported and the family farm was the best unit of production, there must be more emphasis on markets and efficiency.[17] In 1986, a task force headed by former Montreal sugar refinery executive, Jan d'Ailly, argued that Agriculture Canada's programs of support and protection had "the flavour of yesteryear". It also called for more emphasis on efficiency, farm winners and competitiveness.[18]

These arguments meshed well with the Conservative's major trade policy initiative—the decision to pursue a bilateral free trade agreement with the United States while supporting the Americans in their call for an end to trade barriers and trade distorting subsidies around the world. This trade policy may have created a vehicle for implementing a new farm philosophy. International treaties could force Canada to dismantle some traditional border control and subsidy programs which no government would want to tackle as a free standing domestic policy. The Americans have prodded the Canadian government into agreeing for the first time that the Prairie grain freight rate subsidy is a trade distorting subsidy. Even existing trade rules are being used to challenge aspects of Canada's supply management system and future negotiations may step up the pressure. Already, commodity price stabilization programs are being challenged as unfair subsidies. If these farm policy dominoes begin to tumble, can a domestic policy which reduces support for less viable or internationally less competitive farmers in favour of support for the "efficient" and more viable export-oriented sectors be far behind? Could a government long resist increased consumer pressure to allow the Canadian economy to benefit from cheaper food in a free trade world?

The stakes are high. Many questions are yet to be raised as the debate unfolds about this new businesslike orientation. The diverse Canadian farm lobby finds itself uneasy, uncertain and divided as the debate continues. Sectors which think they would be winners in a freer trade world support the evolution and have come to represent the government's strongest farm level base of support. The marketing board commodities are more wary and, in some cases, hostile. In the middle stands the Canadian Federation of Agriculture; pulled both ways and charged with the unenviable task of representing all sides, it nevertheless must try to keep the government's confidence in order to retain a seat at the consultation table.

Farm leaders flattered by the Prime Minister's apparent faith in their ability to compete are now coming to grips with the possible implications of that faith for their sectors. Few dared asked the obvious questions before Canada embarked on the road toward free trade—is Canadian agriculture really world competitive? What happens to those sectors which are not? What are the consequences if substantial numbers of farmers are forced—to use that neutral economist's word—to adjust? The 1990s will be the battle ground between two distinct visions of the farm sector. The traditional "special status" view may be crumbling in the face of the steady progress of market ideologies. The final result will inevitably change the nature of the country.

Notes

1. It is, in fact, difficult to argue anything without reference to economic payoffs in the market place. Recently, even departments of environment have been asked to justify their existence in this manner.

2. *A National Agriculture Strategy, Report on Challenges Facing Agriculture*. (Endorsed by Canada's First Ministers, November 20, 1986), 1.

3. See Census of Agriculture Results published by Statistics Canada, June 3, 1987. See also *The Western Producer*, June 18, 1987, 6.

4. *Report of the Royal Commission on the Economic Union and Development Prospects for Canada*. Vol. 2, 1985, 417-418.

5. Cited at Table 1 in a May 16, 1986 document, "Working Paper on the Role and Mandate of the FCC", prepared for Agriculture Minister John Wise as a background document for a Cabinet submission on Farm Credit Corporation funding.

6. Agriculture Council of Ontario. *Report*, July 17, 1987, 158-159.

7. Figures contained in a 1987 report by Agritrends Research Group for the Alberta Legislature Committee set up in 1987 to review the Alberta Agricultural Development Corporation. Cited in the June, 1987 report *Options and Opportunities: Agricultural Finance in Alberta*.

8. Canadian Press report by Clyde Graham, November 4, 1985.

9. Editorial, "Grain of Truth", *Toronto Sun*, May 4, 1987.

10. Editorial, "Help the Needy", *Globe and Mail*, May 21, 1986.

11. Angus Reid and Associates. *The Reid Report*. Vol. 1, No. 5, May 1986, 23-26.

12. *House of Commons Debates*, April 28-May 1, 1987. p. 5449.

13. Various reports: Farm Credit Corporation farm financial survey, 1986; House of Commons Standing Committee on Agriculture, Report, *The $22 Billion Problem*, July 1988; and research for the Senate Committee on Agriculture and Forestry, 1988.

14. Alex Binkley, Canadian Press. "High Subsidies Frustrate Wise in Agriculture Industry Slump", *The Winnipeg Free Press*, June 22, 1986.

15. Barry Wilson. *Death of a Salesman: The Life and Times of Canagrex*. Research Essay, Institute of Canadian Studies, Carleton University, Ottawa. April 1985, 63-65.

16. P.L. Arcus. *Broilers and Eggs*. (Ottawa: Economic Council of Canada (ECC) and the Institute for Research on Public Policy (IRPP), 1981); Ralph Barichello, *The Economics of Canadian Dairy Industry Regulations*, (Ottawa: ECC and IRPP, 1981); J.D. Forbes, D.R. Hughes and T.K. Warley, *Economic Intervention and Regulation in Canadian Agriculture*, (Ottawa: ECC and IRPP, 1982).

17. *Report of the Royal Commission on the Economic Union and Development Prospects for Canada*. Vol. 2, 1985, 422-435.

18. *Agriculture. A Study Team Report to the Task Force on Program Review.* February 1985, 11-24.

Part Two

Domestic Political Processes and Agricultural Trade Policy

3

Formulating Trade Policy in Canada and the U.S.: The Institutional Framework

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Gilbert Winham

The title of our panel is **The Impact of Domestic Factors on International Trade Policy: Is Agriculture Different from Other Sectors?** I am not a specialist in agriculture, but I do know that when you deal with agriculture there are enormous differences in production and trade regimes as you move from one commodity to another. Therefore it is quite complex and intimidating to an outsider. What I will do is indicate the framework within which domestic factors impact on international trade policy, particularly in Canada and the United States. First, I will try to explain how that framework came into being. I believe that framework represents a revolutionary improvement from the way we used to handle trade policy over a generation ago. Then I will comment on the similarities and dissimilarities between the Canadian and the American systems and particularly whether or not the Canadian system is as effective as the American system.

My remarks will initially focus on the United States. The reason is that the separation of powers in that country tends to introduce analytical clarity in analyzing policy generally, and particularly trade policy. Furthermore, some of the changes probably occurred there first.

Perhaps I could digress briefly on history. Those of you who have followed trade policy recall that the tariff was the main concern of trade policy in the nineteenth century and through the early part of the twentieth century. It was a politically contentious issue in a way that trade policy has rarely been in recent years in Western countries. On this point, I think the Free Trade Agreement in Canada was almost a throwback to an earlier era of trade policy making. Also, in the early part of the twentieth century, the U.S. Congress, which set tariff rates through legislation, had an increasingly high tariff rate, culminating in the Smoot-Hawley Tariff of 1930. You will recall, of course, the impact that the Smoot-Hawley Tariff had on international trade itself.

The Smoot-Hawley Tariff was followed very shortly by the Reciprocal Trade Agreements (RTA) Act of 1934. The latter was a reaction to Smoot-Hawley and the important thing about the RTA is that Congress delegated power to the Executive to change and adjust tariffs through negotiations with foreign countries. This was revolutionary because previously the setting of tariff policy had been by a unilateral act of national governments. In the United States, it was done by Congress because Congress has the constitutional power to regulate commerce. In the Reciprocal Trade Agreements Act of 1934, Congress delegated the power to change tariffs to the Executive, on the assumption that the power would be exercised bilaterally through negotiations and discussions with foreign countries. Of course, the idea was to negotiate a reciprocal downward movement of tariffs with America's trading partners. I would argue this was the most important change in handling trade policy in this century. The GATT, often seen as a watershed, was really a continuation and a multilateralization of the RTA process which previously had been bilateral. The GATT established a forum for multilateral negotiations, and initiated a series of multilateral negotiations from 1947 through to the present, of which the Kennedy Round in the 1960s and the Tokyo Round in the 1970s were a part. Through to the Kennedy Round, GATT negotiations dealt mainly with tariffs. They were a multilateral tariff reduction exercise, but the process was handled along the same lines as the bilateral Reciprocal Trade Agreements.

In the Kennedy Round the process began to change. It was the beginning of another turning point because things other than tariffs began to become important in trade policy. In the Kennedy Round, concluded in 1967, there was an agreement that traded off concessions on the American Selling Price (which involved customs legislation in the United States) against concessions in chemical tariffs by the European Community. There was also a code on anti-dumping, negotiated very predominantly by Canada's Rodney Grey. The U.S. Congress never passed the legislation needed to implement the agreed change in the American Selling Price and, furthermore, Congress pointedly refused to implement the anti-dumping code negotiated in the Kennedy Round. It did this because it felt the U.S. negotiators, Ambassadors Roth and

Blumenthall in Geneva, had exceeded their negotiating mandate as provided in the Trade Expansion Act of 1962. They went beyond what they were allowed to do. When Congress did not implement the undertakings that American negotiators had made to their trading partners in Geneva, this created a crisis of trade relations between the United States and other countries.

It was obvious that non-tariff measures (which are embedded in U.S. legislation) were going to be the paramount issue in the Tokyo Round. This created a dilemma for the United States. The Executive needed authority to negotiate changes in U.S. law, but Congress had the constitutional power to regulate commerce. It was obvious that no country would negotiate with the U.S. Executive in Geneva if there was going to be a repeat of the anti-dumping episode that had occurred in the Kennedy Round. It was apparent there was a need for a changed relationship between the Executive and Congress in the United States in order for the United States to be an effective negotiating partner. That led to the Trade Act of 1974, which did two things. One is that it changed relations between the Executive and Congress. It provided for the "fast track" method of implementing agreements negotiated by the Executive abroad. The fast track is pretty well known to this audience because it is the same principle and legislation under which the Free Trade Agreement was negotiated. The essence of the fast track is that once an agreement is negotiated abroad, Congress by prior legislation agrees to take action on the agreement in a specific period of time—approximately 90 days. Furthermore, Congress can make no amendments to the agreement that the U.S. Executive has negotiated. Congress must make either an up or down decision with no amendments. As Robert Strauss used to say, they had to deal with it as one whole ball of wax. The reason for this practice is that if Congress could negotiate or enter amendments into an agreement, negotiators would face the impossible situation of having to go back and negotiate again with foreign countries.

The second important change in the 1974 Trade Act is that it changed relations between the constituents of trade policy and the Congress and the Executive. We now get into the question of domestic factors. The Trade Act provided for a constituency advisory system that would create relations between the constituents of trade policy and the Executive. Even more specifically, it set up an Advisory Committee on Trade Negotiations (ACTN), a group of some 40 or so people drawn principally from business, and at quite high levels, who were to provide advice to the Executive. It also set up a series of Sector Committees: Industrial Sector Advisory Committees (ISACs), Labour Committees (LSACs), and Agricultural Committees (ASACs). They were composed on the basis of a sensible bureaucratization and division of different groups within the industrial, labour and agricultural domains. The Department of Commerce set up the initial ISACs under the legislative umbrella of the Trade Act of 1974. There were, as I recall, some 27 ISACs and they represented the various natural groupings of industries within the U.S. economy.

This constituency advisory system changed the relations between constituents and the Congress and the Executive. The old system was roughly the following model: constituents put pressure on Congress and Congress then put pressure on the Executive. If the Executive became involved in legislative changes, as opposed to changes in tariffs, there was a crisis in trade policy making such as occurred with the anti-dumping code in the Kennedy Round. The new system changed the model and created direct relations between constituents and the Executive that was negotiating a foreign agreement. It removed Congress from direct control of the Executive and thus removed Congress from direct concern to the constituents. And it therefore allowed Congress to step aside, in a sense, from the overall process of making trade policy. This reduced role of Congress in trade policy has arguably been beneficial, as Congress has the capacity to be a loose cannon on trade matters. A further attribute of the new system, as noted by Mac Destler, is that it created protection for Congress because it removed Congress as the target of constituency pressures. The Executive is now much more the target of these pressures, and it had to keep the constituents informed, pleased, and on board of trade policy as it was being negotiated.

How did this system work in the Tokyo Round? The answer lies in the numbers. You will recall that the Tokyo Round was concluded during Jimmy Carter's presidency, allegedly a weak presidency. It was predicted that Carter would have trouble getting anything through Congress. However, the Trade Agreement Act of 1979, which implemented the Tokyo Round for the United States, passed Congress by 395 to 7. It passed the Senate by 90 to 4. These were overwhelming votes of approval and quite stunning in the circumstances of the Carter presidency. Why did this occur? The reason is that the system created by the Trade Act of 1974, the various Sector Advisory Committees and so forth, had the power to present an evaluation of the trade agreements that were negotiated in Geneva. Then, the Advisory Committee on Trade Negotiations, which was composed of individuals drawn from the highest level of the U.S. business community, had the specific task to present a report to Congress prior to its vote on implementing the Tokyo Round, as to whether or not the Tokyo Round Agreements were in the interest of the United States. The ACTN presented that report, and it was entirely supportive and favourable to the Tokyo Round. Congress then approved the Tokyo Round Agreements. It was said by some individuals I interviewed that that ACTN Report effectively constituted a report card on the performance of the U.S. negotiators. It is obvious that they got A's, which therefore encouraged Congress to approve the Agreement.

How would you evaluate this system? First, it is generally assumed the new system increased the power of constituents over the making of trade policy, because it allowed them to target the Executive. And that is true. It did. But it also, and this is the interesting point, increased the power of government over constituents. This can be easily overlooked in the arrangement. One should remember that communication and power can be a two-way street. In fact, the SAC system increased the power of the Executive over the constituency groups. How did it do this? First, the sectoral advisory committee (SAC) system made the constituents deal with the Executive as opposed to Congress. The Executive is more knowledgeable about trade policy than are individual Congressmen, even those in very knowledgeable units like the Trade Sub-Committee of the House Ways and Means Committee. Congressmen have many things to keep them busy; trade bureaucrats can focus far more on the specifics of trade policy. As trade policy gets more and more complicated, specific analyses are needed to create the analytical power to be able to argue persuasively at the negotiating table.

Second, the new system structured constituency relations for the government. It gave government officials a series of targets to shoot at when they wanted to influence the trade constituency. One of the real problems for government is knowing exactly where pressures are going to come from. An additional problem is the ability to identify passive interests, that is, interests that you know are out there but because they are not taking action in their own right, you do not hear from them. Often they will be more supportive of a government policy than the interests you hear from and it is important to bring them into the picture. The SAC system did just that. The SAC system got away from what Schattschneider in his memorable study of the Smoot-Hawley process described as the oligarchic power of constituency groups; that is, the capacity of certain narrow constituency groups to become identified with a broader interest and then to pursue it to the exclusion of all else and therefore to bring enormous power to bear on the making of policy.

Third, the system allowed the Executive to shape demands and to balance interests: for example, to offset the multinational liquor industry in the United States which wanted more liberalization against the domestic, largely bourbon industry, that did not want more liberalization. In this case, by bringing all of these constituents into the room together, the Executive got an entirely different picture than if it had heard only from the domestic industry by itself.

And finally, the SAC system gave constituency groups a stake in the negotiations. This is normally called co-optation, but you may prefer it in the memorable words that a government officer in the United States expressed it to me: "When you let a dog piss all over a fire hydrant, he thinks he owns it." In this man's words, that was what the SAC system had done.

To sum up, the SAC system in the United States created channels of access that work in two ways. On balance, the capacity those channels had to increase government control over the constituency groups was probably more important in the long run than the reverse. How did it work in Canada? We should keep in mind as a backdrop that Canada is a parliamentary system. In Canada, the process of constituency influence in the Kennedy Round was essentially ad hoc. It was largely informal, although there was an attempt to coordinate constituency submissions through an interdepartmental committee, the Canadian Trade and Tariff Committee (CTTC). In the Tokyo Round, the federal government recognized the need to formalize further the process of constituency relations, as it was obvious there were going to be more pressures from constituency groups in the Tokyo Round and that Canada was probably going to have to take more action on trade policy than in the previous round. Therefore, it would have to create more running room with constituents through better machinery for dealing with them.

The CTTC was re-established in 1973. It was again an interdepartmental committee and its task was to receive submissions from constituents—that is, industry, labour, agriculture and so forth—*and* from provincial governments as well. The CTTC generally worked very well for the private sector. It received an enormous number of briefs and actually did serve as a conduit to industry and agriculture. It did not work very well at all for provincial governments. In the early stages of the Tokyo Round, provincial governments demanded greater access to the negotiation process and to the decisions that were being made. They were able to back this demand by a growth in provincial bureaucracies, particularly an increase in individuals expert in trade policy. It is through bureaucratic expertise that governments develop the capacity to analyze trade, and it is expertise, in turn, that usually gives a government power in a negotiating situation. The growth in provincial negotiating power could be seen early in the Tokyo Round when there were rumblings from Ontario that the sector approach which the government of Canada was pushing at that time was sharply against the interests of Ontario. Although people were extremely delicate about this, one got the impression that some Ontario bureaucrats were about to go public on this issue and make the whole thing rather messy. It quickly became clear to the federal government that there was a need to bring provincial bureaucrats, especially from Ontario, much more into the picture of the Tokyo Round negotiation.

In 1977, Canada established the Canadian Coordinator for Trade Negotiations (CCTN). Set up under Jake Warren, it effectively operated as a Secretariat for an ad hoc Cabinet committee under Allan MacEachen on the Multilateral Trade Negotiation (MTN). Its task was to liaise with provincial governments and constituency groups and it did this very well. During the Tokyo Round, many of the constituency pressures were directed not only to the federal government but also to provincial governments. Provincial governments became effectively a conduit for promoting constituency concerns within the province to the federal government. In more recent times I have worked with the provincial bureaucrats in Nova Scotia on the Free Trade Agreement, and it would be commonplace during the negotiations to go down a list to determine the important industries in Nova Scotia and how one could make representations to the federal government to protect their interests. Relations actually could get quite sticky between the federal and the provincial governments on these issues. Another example of provinces standing up for certain industries is Ontario's support of its wine industry, which has been quite extensive in Canadian trade policy making. Thus, the CCTN, which was set up to handle constituency relations, actually ended up dealing more with provincial bureaucracies, which in turn relayed demands from the private sectors.

Now let's compare Canada and the United States. Both countries face pressures in the federal act of making trade policy and negotiating trade with foreign countries. But they come from different sources. In the United States the pressures tend to come directly from constituency groups. In Canada, the pressures tend to come directly from provincial bureaucracies and a bit more indirectly from constituency groups. The really effective ones come from provincial bureaucracies.

The differences between Canada and the United States can be illustrated by a little vignette. It was said Canadian negotiators, looking at the chaos on the American scene, would say thank god we don't have the Chamber of Commerce coming to Geneva to tell us how to run the negotiation. On the other hand, U.S. negotiators would look northward and see the chaos in Canadian negotiating efforts and would say, thank god we don't have state governors coming to Geneva to tell us how to run the negotiation. This little vignette speaks a lot about the structure of the two countries: the U.S. is structured more on a corporatist bias, and Canada, more along federal or territorial lines. Although there was a structural difference, there was a functional equivalence between the CCTN and the SAC system in the United States. Both these structures allowed their respective governments to respond to and control the main sources of constituency pressures that they faced.

Since the Tokyo Round the Free Trade negotiations have been conducted between Canada and the United States. In 1986, in connection with this negotiation a system was set up in Canada to represent private sector constituency interests that was modelled very much after the ACTN and SAC system in the United States. In Canada the senior committee is called the International Trade Advisory Committee (ITAC) and is a Committee of about 40 people, drawn largely from leaders in industry, plus a few academics. There are also 15 SAGITs, which are Sector Advisory Groups for International Trade, and which are modelled very much after the Sector Advisory Committees in the United States. For background reading on this matter, I would recommend Allan Rugman and Andrew Anderson's paper, "Business and Canadian Trade Policy: The New Private Sector Advisory System". They list and describe the 15 SAGITs in an Appendix.

The ITAC and SAGITs were a direct duplication from the United States, a sensible duplication because that system worked rather well. Are the two systems the same? Do the SAGITs and the ITAC function in the same way in Canada that the ACTN and the SACs function in the United States? The answer is yes and no. No, because the role in the policy process is really quite different for the ITAC and the SAGITs than it was for the ACTN and the SACs in the Tokyo Round for the United States. First, the ITAC does not have the power, nor did it ever have, to render a public advisory opinion as to whether or not the Free Trade Agreement was in the interest of Canada. This would have created enormous problems internally for the Canadian government, just as it must have done for the U.S. government. Because of the parliamentary system, the Canadian government has greater control over the structure within which trade policy will be made. Consequently, it avoided giving the ITAC the equivalent advisory powers that the ACTN enjoyed in the United States.

Second, in the free trade negotiations, the SAGITs and the ITAC reported to the Minister of Trade and not to the Trade Negotiations Office (TNO). Since most of the action in the negotiations occurred largely in the TNO and then later in the Prime Minister's Office, the ITAC and the SAGITs became less influential simply by not reporting to the main actors in the process.

Third, in research conducted on the Free Trade Agreement, no one really ever suggested to me that the ITAC and the SAGITs were important players at the end of the day. Private sector constituency interests were admittedly served, but they were not served in quite the open and direct manner that they appear to have been served in the U.S. system.

The similarities between the Canadian ITAC and SAGITs, and the U.S. ACTN and SAC, are in their procedures. As in the United States, the ITAC and the SAGITs in Canada allow business leaders to shape the demands that come from the private sector. Depending on the issue, this can be a significant power or it can be somewhat less important.

Let me give you an example from the current operations of the ITAC, from an internal task force dealing with "GATT Institutional Reform" which I chair. This task force is responsible for following negotiations in the Uruguay Round on dispute settlement. Dispute settlement is not an issue to which businessmen devote an awful lot of attention. Generally, businessmen do not think any more about disputes when they are making business deals than people think about divorce when they are getting married. When disputes do occur, people, of course, become very involved, but ahead of time there is not much concern. As a result, most of the action we have had on dispute settlement in the ITAC has simply been briefings by bureaucrats explaining what the government is doing and how it is serving the interests of Canadian business. This seems reasonable. What is happening here is rather reminiscent of what Kissinger has said about briefings; that is, after you have heard a briefing from a government official you are so overwhelmed by the data and presentation that you feel positively noble if you can bring yourself together to ask an intelligent question. This is how the ITAC appears to work, at least in the area of dispute settlement. In other areas, of course, the various task forces of the ITAC may touch on more immediate interests of business and they may develop greater independent power to bring pressure on government. But in my experience there have never been meetings of the ITAC without government officials in attendance, and it would seem doubtful that any such meeting could be held without them because they are absolutely necessary to the process. So I think the operation of the ITAC generally confirms the proposition that government officers are able to shape many of the pressures which they themselves receive.

Now to conclude. There has been a secular trend toward the internationalization of trade policy since the revolutionary changes introduced by the Reciprocal Trade Agreements Act of 1934. By this I mean a trend toward an understanding that an increasing portion of trade policy will be made in concert with other countries through some form of bilateral or multilateral negotiation, or increasingly, some form of international dispute settlement. The internationalization of the process of trade policy paradoxically requires a deepening of the interaction with constituency groups. This is what has happened through the domestic structures that have developed in the last two decades.

At the same time, there is also a need to control domestic constituents and to make sure that the pressures they bring on trade policy are reasonable and balanced, and do not jeopardize the continued movement towards international legislation over trade policy. International legislation is in fact what trade negotiations produce, but the process is vastly more delicate than comparable lawmaking operations within domestic societies.

In the future, the greatest problems of negotiation of international trade policy probably lie in the domestic arena. Therefore, the calling of this conference, which is intended to deal with the domestic factors in trade policy, is absolutely timely.

4

Canada: Conflicting Domestic Interests in the MTN

Grace Skogstad

Introduction

Canada was an early proponent of the Uruguay Round and comprehensive negotiations to reduce or eliminate tariff and non-tariff barriers to agricultural trade. As a member of the Cairns Group, Canada has embraced the Cairns proposals for (a) an immediate freeze on government support and protection policies which distort trade; (b) both short-term reform measures and commitments for long-term, phased in reform; (c) a comprehensive approach that negotiates government support and protection via all policy measures for all commodities; (d) the need for countries to commit themselves to a target depth of cut in support and protection within a previously agreed time frame; (e) a strengthened GATT regime with clearer rules and more effective discipline on GATT signatories.[1]

Notwithstanding its endorsement of the Cairns proposals, there are indications that Canada's support for trade liberalization is more limited than that of the U.S. and somewhat more nuanced compared to the position taken by the Cairns Group. Canada has emphasized that the focus should be on trade distorting policies and programs, and not on all government measures. In addition, despite supporting a comprehensive approach, Canada has repeatedly indicated that certain of its policies (notably its supply management marketing boards) are not trade distorting and hence not targets for elimination.[2] Canada's position then appears to be a combination of a competitive market orientation and a managed market strategy: market orientation for some commodities, market management for others.[3] Such a position, which has led some Cairns Group members to question Canada's good faith in professing support for trade liberalization,[4] reflects the conflicting domestic pressures on the Canadian government. Diverse domestic interests help to explain its rejection of the Cairns Group proposal for across-the-board cuts in all trade distorting subsidies and its preference for an approach that allows individual countries flexibility in how they choose to meet any government support reduction targets agreed to.[5]

The discussion which follows begins with an outline of the diverse domestic government and producer interests which confront and constrain policy makers attempting to formulate a coherent MTN strategy for agriculture. It then examines the extent to which the political-institutional framework for the formulation of Canada's agricultural trade strategy is likely to enable the government of Canada to achieve a consensual, coherent perspective. The concluding section offers speculation on future developments that will affect the capacity of the government of Canada to agree to significant reforms in agricultural trade policy instruments.

Pressures for and Constraints to Reform

External and domestic pressures interact to account for Canada's interest in world agricultural trade reform. These include first, the U.S.—EC grain wars; second, the involvement of Canadian producers in costly and protracted trade disputes with the U.S. and the EC; third, domestic tensions arising from interprovincial barriers to trade and internal market balkanization; and fourth, federal macroeconomic goals of deficit reduction and a more market-driven economy.

Canada's initial interest in agricultural trade reform can be explained almost solely in terms of the significance of world markets for Canadian grain and oilseeds producers. With 70 per cent of Canadian grains and oilseeds relying on export markets, the EC-U.S. export subsidy trade wars have been costly to the farmers and government of Canada. The latter, persuaded by farmers and provincial governments of its responsibility to shield farmers from the worst effects of depressed world prices, has spent in excess of $3 billion in the past three years in direct payments to Canadian grain farmers.[6]

A second catalyst, while not as significant, has been recent trade disputes involving Canadian producers (Skogstad, 1989; Steger). The most politically salient of these have been the Canadian Cattlemen Association's dispute with the EC over manufactured beef imports into Canada and the Canadian pork and hog industry's battle to remove U.S. countervailing duties on Canadian pork imports. Both disputes continue as major irritants to the affected producers. The victory which Canadian cattlemen secured in 1986 to have countervailing duties placed on subsidized exports of EC manufactured beef proved hollow when a GATT panel overturned this ruling in 1987 on the grounds that Canadian cattlemen did not have legal standing to bring the complaint. Canadian cattlemen remain frustrated with the unwillingness of the Canadian government to reject the GATT ruling, and in the face of perceived government procrastination, seek reform in GATT rules to protect their trading interests. As for the pork and hog industries, their objective of procuring a binational dispute settlement mechanism in the Canada-U.S. Free Trade Agreement (FTA) as a deterrent to trade harassment and to ensure the unbiased resolution of Canada-U.S. trade disputes, appears not to have solved all their problems. Trade disputes continue, fuelled by amendments to U.S. domestic legislation in 1988 which render it easier for U.S. industries to have countervailing duties imposed on processed imports when their raw inputs have been subsidized.[7]

Canada's support for trade liberalization in the MTN is also rooted in the increasingly popular perception that current and past expenditures on behalf of agriculture have been economically and politically detrimental. The largely unharmonized expansion of provincial spending on behalf of local producers in the 1970s and early 1980s not only balkanized the Canadian market, but in the process, pitted producers and governments in one province against those in another. The resulting intergovernmental tensions were viewed with alarm in a sector that, with a few notable exceptions, has had a legacy of intergovernmental cooperation and coordination (Skogstad, 1987a). The agricultural economists and market-oriented producer groups who led the campaign against such protectionist government interventions are finding growing support across provincial capitals for their view.[8]

This change in perspective has been occasioned, in part, by the costliness of these interventions; in part, too, it has resulted from a change in philosophy in producer and government circles. The trend over the past decade has been to reduced federal government expenditures on behalf of agriculture (Rodier, Berthelet). Thus, the unprecedented government expenditures to Canada's grain farmers are most appropriately viewed as a response to the emergency of depressed world prices and a domestic drought, and hence as a temporary deviation from the federal Conservative government's commitment, since September 1984, to fiscal restraint and a reduced deficit. But the latter continue to be Conservative Government goals, and now, in its second term, as the country's opinion leaders reiterate the need to get the federal deficit under control, one can expect a more zealous effort in this direction. In this quest the federal government can count on a measure of provincial support for its objective of a market-oriented agriculture and food industry.[9] Shifts in party fortunes in the 1980s have replaced social democratic governments in provincial capitals with more conservative administrations that share the federal Conservative government's philosophy. In short, there are some significant forces pushing for a more market-driven agricultural sector in Canada.

At the same, however, other factors and developments militate against the full pursuit of trade liberalization. The first of these is the federal Conservative government's own sense of obligation to support Canadian farmers. This commitment reflects, in part, the presence of regionally powerful ministers from the prairies in the federal Cabinet, and the pivotal role of Quebec in Conservative Party electoral fortunes. A second constraint is that the MTN is occurring in the wake of the FTA—in the wake of promises made about the impact of the FTA on agriculture and in the wake of heightened farmer sensitivity regarding the vulnerability of policy instruments foreign to and frowned upon by other countries' governments. Among the most important of those promises are that neither supply management marketing boards nor the Canadian Wheat Board has been jeopardized by the agreement. More generally, the inclusion in the FTA of provisions which are perceived by some farm organizations, including the Canadian and Ontario Federations of Agriculture and the Quebec Union des Producteurs Agricoles, to jeopardize the viability of some commodity sectors and undermine policy instruments in other sectors, has created unease concerning the government's MTN agenda.[10]

This unease is greatest in those sectors which produce for a protected domestic market and enjoy the benefits of a managed market with government assistance. Canadian dairy, poultry and egg production takes place within national supply management schemes which provide for import controls and administered (formula) pricing. Dairy products (cheese, buttermilk powder, evaporated or condensed milk) are subject to import quotas, licenses to import most milk products are rarely issued, and imports of substitutes for butter and processed or renovated butter are prohibited (Prentice and Menzie: 124-25). Dairy support includes, as well, federal subsidies. Thus the objective of these sectors is to maintain and reinforce the existing rights to import protection which Article XI of the GATT currently provides for.

Dairy and poultry producers are seeking the right to place import controls on further processed products which contain a certain percentage of their raw product.

Having been adversely affected by other countries' export subsidies and non-tariff barriers, the grains and oilseeds sectors tend to support world trade liberalization and a market oriented approach to agriculture. Their unease, however, stems from the fact that they benefit from some government measures which are potentially trade distorting in their effects (Carr et al., 1988; Gilson, 1988). Federal payments under the Western Grain Transportation Act to the railways to offset costs of exporting grain to export markets are almost certainly export trade distorting. Income/price support measures include stabilization payments under the Western Grain Stabilization Act (WGSA) to producers of wheat, oats, barley, rye, flaxseed and canola, and mustard; government premiums for Crop Insurance; and nonstatutory disaster relief payments under the Canada Special Grains Program. While the OECD and other analysts deem the WGSA to have minimal trade distorting effects and to contribute to stability in international markets,[11] it nonetheless remains a potential target for reform. Knowledge that some of these measures of support and protection might have to be foregone in order to obtain greater access to other countries' markets tempers some grain producers' enthusiasm for agricultural trade liberalization. The United States' targeting of the Canadian Wheat Board—its desire for greater transparency regarding Board sales, for example—is a particularly sensitive issue for those who support the traditions of orderly marketing that are incorporated in the prairie pools and the Canadian Wheat Board. But as the trade wars of the 1980s have amply demonstrated the deleterious consequences for Canadian farmers of foreign countries' government intervention, grain growers ideologically committed to a competitive market place, free of government regulation, have found their ranks growing in number.

Despite the fact that its trade is principally within the North American market, ideological support for trade liberalization appears to be greatest in the red meat sector. This sector has few import barriers and those technical and tariff barriers which exist will be largely eliminated as the FTA is implemented. The Meat Import Act enables, but does not require, the federal government to impose quotas on beef and veal imports on a countercyclical basis. Income/price supports include the provision for producer deficiency payments under the Agricultural Stabilization Act. Payments to Canadian hog producers under the latter were deemed by the United States to constitute an unfair trade practice and were grounds for the imposition of countervailing duties on Canadian hogs (Skogstad, 1989). More significant as potential trade distorting targets are the income support schemes of a number of provinces.

The objective of Canadian cattlemen in the MTN, as articulated by the Canadian Cattlemen's Association, is the elimination of export subsidies and the clarification of GATT rules. Cattlemen seek confirmation that producers have the right to bring complaints of unfair trading when their industry is threatened by further processed product imports. Pork producers support a strengthened GATT regime, as well, and seek removal of import barriers.

The final commodity sector, horticulture, has been importantly affected by the FTA; the import protection which this sector enjoyed will be seriously eroded as the Free Trade Agreement is implemented. Negotiations regarding technical standards in the MTN will be of most significance to it.

Thus, there are divisions within the Canadian farm community on the merits of liberalizing the world agricultural trading system. Different commodity sectors are pursuing disparate, and potentially conflicting, goals in the trade policy making process and so shape Canada's MTN strategy regarding agriculture. They have the potential to do so through the role of producers and provinces in trade policy making and as a result of the diffusion of trade policy making authority within the federal government.

The Trade Policy Making Process

Compared to the United States where the Executive must obtain the approval of a legislative body (the Senate) for treaties, the government of Canada has considerable legal latitude to sign and ratify international trade agreements. Neither Parliament nor the governments or legislatures of the provinces has any legal authority to make or be a party to international treaties. That right rests with the federal government as a prerogative power. Moreover, with regard to implementing such international agreements, the federal government's constitutional authority over trade and commerce, and specifically export trade, ensures that most of the policy instruments which are the subject of negotiation in the MTN lie within its jurisdiction. This includes the right to impose and remove tariffs and import controls and to grant and withdraw import licenses, including those of its agent, the Canadian Wheat Board. In addition, its jurisdiction over interprovincial marketing gives it exclusive control over the regulation of railway export freight rates, including the right to de-regulate those rates, or redirect or eliminate freight rate subsidies should it see fit to do so.

But while Ottawa is not legally bound to obtain provincial agreement on international treaties, the effectiveness with which it may be able to implement them subsequently is very much conditional upon, if not substantial provincial concurrence with the terms of these agreements, at least prior consultation. The federal obligation to consult and seek consensus arises because of the constitutional sharing of jurisdiction for agriculture, political precedent and convention, and political realities.

The Impact of Federalism

While the government of Canada, as noted above, enjoys exclusive jurisdiction to *negotiate* trade agreements, its right to *implement* international agreements which encroach upon provincial spheres of jurisdiction has been uncertain since the *Labour Conventions* case of 1937. Despite that ruling, the weight of opinion is that federal competence in international trade entitles the federal government to implement international agreements, including those provisions which impinge upon provincial jurisdiction.[12] But even here, it is argued that there is an important constitutional principle which requires the federal government to consult and obtain the consent of the provinces for treaty obligations.[13] The government of Canada upheld this principle in the negotiation of the FTA, regularly briefing and consulting provincial governments until the final "make or break" stage of the negotiations. And it did obtain a consensus in support of the FTA among a substantial number of provinces (Brown, 1989).

Thus the FTA established the important precedent of regular provincial consultation on international trade agreements. But there are other more compelling reasons for provincial input into the MTN. Ottawa will certainly face significant political obstacles in implementing a GATT agreement that does not have substantial provincial concurrence and may even find it legally impossible to do so. These obstacles arise because the provinces share jurisdiction for agriculture. In exercising their spending and regulatory authority, provincial governments have drawn local producers into networks of political support. Thus, although federal legislation enjoys paramountcy over provincial, the fact that the courts have never been asked to determine the extent of federal paramountcy, means that provincial agricultural programs, even where they conflict with federal, are seen to be equally legitimate. A federal government that tried to implement a multilateral agricultural agreement against the wishes of a number of provinces could well find itself with little public support in the agricultural community.

The political leverage that provincial governments are able to exercise over Canada's MTN strategy is rooted more fundamentally in the fact that provinces are, to varying degrees, responsible for a number of the trade distorting measures. These include producer subsidies and income support measures, as well as provincial marketing boards that have powers to negotiate prices and regulate technical standards for horticultural products like apples, tender fruits, and vegetables. The effectiveness with which the government of Canada can therefore commit itself to reducing Canada's aggregate measure of support and protection thus rests upon the extent to which it can persuade or coerce provinces to reduce or eliminate their trade distorting measures. Provincial willingness to do so will vary across provinces. Some provinces may readily abandon trade-distorting producer assistance; Alberta, for example, will likely forego payments to its livestock producers in exchange for the termination of the federal export grain subsidies which they are designed to offset. Other provinces, like Quebec, whose comprehensive income assurance plan is designed to fulfil province-wide economic development goals and whose producers are deeply committed to it, may be more intractable. For all provinces, changes in federal policy instruments (for example, the elimination of import controls on supply managed commodities) have significant implications for patterns of interprovincial trade and regional commodity specialization (Schmitz and Carter, 1987). They will, therefore, have incentives to use their trade distorting measures as bargaining chips in seeking to persuade Ottawa not to act unilaterally to alter its exclusive trading policy instruments to their detriment.

Thus, Ottawa's recognized need to consult and seek the consensus of the provinces is dictated by constitutional practice and pragmatic politics. It is likely also governed by a federal reluctance to face a court challenge to its legal right to implement international treaty provisions that lie within provincial competence. The open question as to whether the courts would validate such interference as in the national interest as a whole or whether they would view it as jeopardizing the federal principle is likely even more problematic in the instance of a shared jurisdiction, as agriculture is. Ottawa was reluctant to force the issue in the FTA and would seem to stand on even weaker ground to do so with respect to a GATT agreement. The obligations with respect to subnational governments in the FTA (Article 103) requires the government of Canada to take "all necessary measures" to give effect to the agreement. In its implementing legislation, the federal government eschewed the option of declaring the FTA to be binding on the Crown in right of Canada and any province, and instead opted for a much less aggressive approach that merely stated the right of Parliament to enact legislation to implement any provision of the FTA or fulfil any obligations of the Government of Canada under the FTA.[14]

The obligations with respect to sub-national governments in the GATT (Article XXIV, para. 12) is much weaker. It requires that each contracting party take "such reasonable measures as may be available" to ensure regional and local governments honour GATT agreements. This is more "sensitive to the cooperative federalist spirit" and might not require the contracting party to take any measure which it deems unreasonable. It is conceivable that the weaker GATT extent of obligations clause would lead Canadian courts to conclude that it was not reasonable for federal authorities to require provincial adherence to treaty obligations which encroached upon their jurisdiction.

In conclusion, effective agricultural trade policy making requires provincial input. To ensure it, consultative mechanisms put in place for the negotiation of the U.S.-Canada FTA have been continued.

Mechanisms of Provincial Consultation

There are three channels of federal-provincial communication. The first is interministerial consultation: consultations between provincial and federal ministers of international trade and between provincial and federal ministers of agriculture. The second is through the Committee on Multilateral Trade Negotiations (CMTN) which reports to the Minister of International Trade. Composed of the senior federal trade officials and the official trade representatives from each province, this is the forum where federal and provincial negotiators meet to discuss all MTN issues and exchange views and information. Its effective working group for matters of agriculture is a subcommittee on agriculture chaired usually by the senior Agriculture official in the MTNO and composed of officials from federal and provincial departments of agriculture, international affairs, intergovernmental affairs, and industry and trade. This subcommittee is designed to be a committee for the exchange of information and views.

(Paralleling this structure is another committee, the Federal-Provincial Agriculture Trade Policy Committee, which reports to the federal and provincial agriculture ministers. It is not part of the official consultative mechanisms for the MTNO and in fact, predates them. It looks at agricultural trade matters in general and is composed of senior officials concerned with agricultural trade from the two levels of government. Co-chaired by the senior official responsible for International Trade in the federal department of Agriculture and a deputy minister of Agriculture from the province of Alberta, the mandate of this committee appears to be to foster goodwill and relay information across provinces. In practice, the same people tend to serve on this committee as serve on the agricultural subcommittee of the CMTN. It is briefed regularly by an official from the MTNO.)

Thus, the structures are in place for provincial concerns to be voiced. Given the significance of provincial support for federal initiatives, those mechanisms of provincial consultation ought to mean that provincial goals in the MTN will be seriously heard. A key consideration then becomes the extent to which provincial input contributes to coherence or incoherence in Canada's MTN strategy for agriculture. Differences across provinces in the degree of commodity specialization, in the organizational unity of producers, and the congruence of government-farm group goals make policy coherence more or less difficult in some provinces than in others and create a potential cleavage between the western and central Canadian provinces in their relative support for trade liberalization and trade management. Neither bodes well for an effective and coherent national agricultural trade strategy.

Provincial-Producer Alliances

Table 1 reveals significant differences across provinces in the trade orientation/market protection of major commodities and the diversity of production. Governments in Alberta, Saskatchewan, and Manitoba find two-thirds of their producers, those in the red meat and grains sectors, united on the importance of trade liberalization. The organizational strength and economic significance of these sectors thus means that these three western governments support trade liberalization. Although its agricultural economy is fairly diverse, Quebec, too, is characterized by considerable homogeneity in the sense that about 50 per cent of the value of its agricultural production is protected by GATT Article XI and supply management.[15] The economic significance of the supply managed sectors is reinforced by an organizationally cohesive farm lobby. The Union des Producteurs Agricoles (UPA) has a legislative mandate to speak as the single voice of Quebec farmers, as family farmers and commodity specialists (Kesteman and Kirouac, 1984). Quebec governments have bestowed legitimacy on it, delegating it considerable powers of self-regulation and drawing it closely into government decision-making circles. While such input does not guarantee that the UPA's agricultural policies will be adopted by the government of Quebec—the Bourassa government endorsed the FTA while the UPA rejected it—it does mean influence.[16] And its unity in defense of managed trade and a strengthened Article XI facilitate a similar provincial government agricultural strategy.

Table 1
Provincial Sources of Farm Cash Receipts by Commodity, 1987 (%)

	NFLD	PEI	NS	NB	QUE	ONT	MAN	SASK	ALTA	BC	CANADA
Wheat, Oats, Barley	-	1.2	.5	1.0	1.4	1.5	22.7	40.0	20.3	1.5	14.9
Crop Insurance Payments	.1	1.5	.2	1.9	1.6	.3	1.6	2.6	3.3	.9	1.7
WGSA [a]	-	-	-	-	-	-	12.5	17.9	9.3	.8	6.7
Oilseeds [b]	-	-	-	-	-	-	8.4	7.9	7.8	.4	4.0
Potatoes	2.5	38.0	2.5	21.5	1.5	.9	2.1	.2	.9	1.9	1.7
Fruits & Vegetables	6.1	3.2	10.6	7.3	5.4	8.8	.8	0.0	.8	18.2	4.6
Cattle & Calves	2.4	13.7	11.3	9.6	9.6	19.5	15.5	13.4	30.6	17.4	18.0
Hogs	7.9	12.4	11.6	8.2	20.1	12.4	12.2	2.7	7.2	4.6	10.2
Dairy [c]	24.9	17.3	29.1	23.5	36.3	19.8	5.8	2.3	6.1	22.7	15.1
Poultry	26.7	.5	11.5	9.6	8.3	6.5	2.4	.8	2.4	10.4	4.7
Eggs	17.9	1.4	6.9	5.6	2.8	3.3	2.3	.4	1.1	5.5	2.3
Prov. income stabilization & supp. payments	3.4	1.8	.4	.3	2.7	2.3	7.5	9.8	6.9	.8	5.1

Do not add to 100 because of the omission from the table of less nationally/provincially significant commodities.

a. Western Grain Stabilization Act payments
b. rye, flaxseed, canola/rapeseed
c. including supplementary payments

Source: Handbook of Selected Agricultural Statistics, Table 9, p. 7.

Formulating a consistent and producer-supported agricultural strategy is less facile in the remaining agriculturally important region, the province of Ontario. The diversified nature of the Ontario agricultural economy, with its mixture of market-managed and market-oriented commodities, poses problems for consensus building. While Ontario farmers are fairly cohesively organized, a number of important commodity groups—including cattlemen and corn producers—remain outside the Ontario Federation of Agriculture, lobbying governments on their own behalf. The difficulties for the provincial government will grow if these commodity sectors come increasingly to argue that their trading interests are incompatible with those of the supply managed sectors.

Looking across the provinces, at the possibility of interprovincial alliances, one sees two natural blocs. The first is the western bloc for trade liberalization; the second is the central Canadian bloc for managed trade. But the picture is somewhat more nuanced than this. Although producers of chickens, turkeys, eggs, and milk are concentrated in Ontario and Quebec and derive their political strength provincially and federally from this concentration, every Canadian province enjoys the protection of supply management. Their support for it, however, varies as a function not only of their economic dependence upon it, but as well, of their philosophical support for it. Here there may be a large difference in provincial support for dairy market regulation and price support, on the one hand, and poultry regulation, on the other. Poultry regulation would seem to enjoy less public and provincial government support, largely because of interprovincial squabbles over marketing boards. In addition, chronic criticism of poultry marketing boards by consumers and agricultural economists has undermined their legitimacy and lent momentum to efforts to make them more market-oriented.[17]

To summarize, disparate producer goals regarding the MTN and the difficulties of reconciling them at the provincial level ensure that provinces will not speak with one voice. Ottawa, too, faces these difficulties, as it seeks to allow input from a farm community that is nationally fragmented and organizationally divided. While this may give it a convenient excuse for inaction or for pursuing its own agenda, the attractiveness of Canada's divided farm lobby wanes given the tradition and expectation of producer consultation and input into government policy. Where such a tradition exists, a united farm lobby brought into decision-making circles can offer a government the assurance of public and political support if it acts in concert with producer interests. Unfortunately, the farm lobby in Canada can offer no such assurances.

The Farm Lobby: Fragmented, Divided

At the national level, Canadian farm organizations are fragmented and disunited; there is no one organization that can legitimately purport to speak for all Canadian farmers. Important commodity sectors (notably cattle) remain outside the Canadian Federation of Agriculture and others (eggs, hogs) are only affiliated to it. In addition, the CFA finds itself challenged by the National Farmers Union. Different groups exist to represent different commodity sectors, which themselves are characterized by varying degrees of organizational cohesiveness (Coleman, 1988: Chapter 6).

There have been some attempts to build alliances across agricultural groups for the purpose of influencing the MTN. The agencies which represent the four supply-managed sectors (the Dairy Farmers of Canada, the Canadian Chicken Marketing Agency, the Canadian Egg Marketing Agency, and the Canadian Turkey Marketing Agency) have combined forces to wage a fairly extensive lobbying and public information campaign in and outside Canada on the need to maintain and reinforce GATT Article XI. Free trade proponents have also united under the umbrella of the Canadian Agricultural Policy Alliance (CAPA). Its member organizations include the Canadian Cattlemen's Association, the United Grain Growers Association, hog marketing boards on the prairies and in Ontario, the Western Wheat Growers Association, and associations representing canola and flax growers.

Despite these temporary alliances, the farm lobby continues to be characterized by multiple, narrow, specialized groups competing with one another for the ear of the government. This pluralism and the absence of a national peak association able to broker a common position among Canadian farmers on the MTN puts the onus on governmental officials to forge such a consensus. Their capacity to do so is hindered to some extent by a diffusion of state authority across departments and agencies.

Diffused State Authority: Bureaucratic Pluralism

Agriculture trade policy making in Canada is fragmented and dispersed across departments of the government of Canada and between the federal and provincial governments. At least three departments have an expertise in and mandate over agricultural trade matters: Agriculture Canada, the line department responsible for agricultural policy; External Affairs, which is responsible for tariffs and import quotas and whose International Trade branch is responsible for the negotiation of international trade agreements; and Finance, whose minister is responsible for the domestic implementation of the GATT Subsidies and Countervailing Duties Code. Further fragmentation arises because of the existence of a junior ministry within Agriculture Canada for Grains and Oilseeds and whose minister is responsible for the Canadian Wheat Board.

This fragmentation creates difficulties for coordinated policy making. Normally, governments will be able to develop a coordinated, coherent trade policy when a single agency or bureau dominates. The Multilateral Trade Negotiations Office (MTNO) (whose predecessor, the Trade Negotiations Office was created in early 1986 to coordinate Canada's strategy during the FTA negotiations) is expected to accomplish the desired coherence. As the lead agency for the MTN its mandate obviously extends beyond agriculture. On agricultural trade matters specifically, an interdepartmental committee of approximately 12-15 individuals brings together officials from all departments with an interest in agricultural trade (Agriculture, Grains and Oilseeds, External Affairs, Finance, Health and Welfare, and Industry, Science and Technology). With officials seconded from International Trade and Agriculture Canada, the MTNO clearly has significant expertise on agricultural trade matters.

But problems of incoherent goals are likely, given the differing perspectives within Agriculture Canada and between Agriculture Canada and International Trade. Among agricultural officials, there is the need to reconcile the differing goals of the junior ministry responsible for grains and oilseeds (committed to greater access and the dismantling of export subsidies) and officials in Agriculture Canada whose mandate is wider and includes supply managed sectors. Concerning the differences of perception of Agriculture Canada and External Affairs (International Trade), Agriculture Canada can be expected to take more of a sectoral perspective and to focus on the domestic implications of international trade agreements. External Affairs, concerned with favourable diplomatic relations and the promotion of harmonious trading arrangements, will likely be more willing to sacrifice domestic interests in the pursuit of good external relations. In seeking to reconcile these differing perspectives, it can be expected that officials from Agriculture Canada, whether seconded to the MTNO or still within the department, will predominate, given the highly technical nature of much of the MTN issues.

Sectoral Consultation

The government of Canada has created formal mechanisms to provide for producer input into the formulation of Canada's MTN strategy, and presumably therefore to build such a consensus. The International Trade Advisory Committee (ITAC) provides an opportunity for all interests (agricultural, labour, business, consumer, academic) to inform and advise the Minister of International Trade on trade policy issues. For agricultural interests, however, the most important formal mechanism is the Agriculture, Food and Beverage Sectoral Advisory Group on International Trade (SAGIT). There are a number of these SAGITs, which were created to solicit information about various sectors for the purposes of negotiating the FTA, and which continue in existence, with some personnel changes, for the MTN. The major farm organizations have representatives on the Agriculture SAGIT, which reports to the Minister of International Trade.

On the whole, the Agriculture, Food and Beverage SAGIT is probably a more effective tool of influence for the government than it is for the farm groups. The divisions in the farm community, which necessitate the representation of several farm groups on the SAGIT, preclude a united farm voice. Moreover, it is unclear whether individuals on the SAGIT are there as private individuals able to offer government officials expertise of their sector or whether they are there to transmit farm group goals. The confidentiality of government briefings to the SAGIT tends to undermine the latter role and make farm groups suspicious that the SAGIT is a one-way transmission belt—from government to farm group official—and not the other way around. Rugman and Anderson's analysis of the impact of the SAGITs on the FTA is that while "there was no clear evidence in August 1986 that the majority of the SAGITs would support a comprehensive bilateral trade agreement," "by 1987 most of the SAGITs were supportive of the government's trade policy initiative." The implication is that they, and the ITAC as well, were important vehicles for the government in persuading sectoral groups "to modify any self-serving advice" and support the government's proposals.[18] Representatives of farm groups who served on the Agriculture SAGIT during the FTA negotiations expressed dissatisfaction with the failure of senior officials and ministers to endorse their proposals.[19] But while all this suggests that the SAGIT can be skilfully used by the government to make its views known and appreciated, it must be recalled that farm groups approach the MTN much more wary than they were in the FTA round.

Conclusion

The foregoing discussion has outlined the conflicting domestic interests and constitutional, political and institutional constraints which help to explain Canada's dual strategy regarding agricultural trade up to the GATT mid-term review in Montreal in December 1988. The obvious question is whether the government of Canada will continue to pursue this dual approach or whether it will abandon one prong—managed trade and trade protection—in favour of trade liberalization alone. The international developments that will affect its ability and willingness to do so are outside the scope of this paper, but the domestic factors that will bear upon support for the government's MTN initiatives can be probed.

The federal government has considerable latitude to pursue a multilateral agricultural agreement that impacts only on federal powers. If its preferred option is trade liberalization and the abandonment of trade protection, it can legally unilaterally agree to phase out or eliminate those trade distorting measures that lie within its exclusive authority: import controls on supply managed commodities or the import licensing authority of the Canadian Wheat Board to give two examples. But while one cannot rule them out, unilateral action and an international trade agreement restricted to federal policy instruments have appreciable political disadvantages. Ottawa would clearly prefer a broader package that included provincial commitments to reduce trade distorting measures and that did not make it the sole butt of any disgruntled producers. The extent of political support that Ottawa is able to maintain and augment for its MTN strategy and each of the prongs of managed trade and liberalized trade will be affected by the impact of the FTA, changes in domestic agricultural programs, and the extent to which the as yet largely latent division between market-oriented and managed market commodity sectors comes to be viewed in zero-sum terms.

Provincial government and producer support for the federal government's MTN strategy will be affected by the manner in which the government of Canada proceeds to implement the FTA and the consequences of its implementation. The significant issues will be the extent to which Ottawa accedes to provincial pressure for involvement in still to be negotiated items, including the subsidy code. Another potential source of friction will be how Ottawa deals with dislocations arising from the implementation of the FTA, including those to the horticultural and wine and grape sectors.

For Canadian producers, their support and momentum for multilateral trade reform will be affected by whether their "best case" or "worse case" scenarios regarding the FTA are realized. Proponents of trade liberalization in the red meat sectors expect the binational dispute settlement mechanism in the Canada-U.S. Free Trade Agreement to reduce U.S. trade protectionism (by reducing the number of "frivolous" complaints) and to render quicker and less biased decisions. If the predictions of some trade specialists are accurate, and the binational dispute settlement mechanism does not diminish Canada-U.S. trade disputes, does not resolve them quickly, and/or does not lessen the perceived "politicization" of trade remedy decisions, then these sectors, even with their trust in the government of Canada undermined, will likely be more determined to press for reform of GATT rules. Developments pursuant to the FTA will also affect the support of the other major commodity sector predisposed toward trade liberalization, the grain and oilseeds producers. Confidence in the government of Canada to pursue their best interests in trade reform will wane among the segment of this industry committed to orderly marketing if suspicion grows that the provisions regarding the Canadian Wheat Board's import permit system are the thin edge of the wedge in the United States' determination to have the Canadian Wheat Board eliminated.[20]

The implementation of the FTA provisions regarding import controls on supply managed commodities also contains the potential to sharpen the domestic conflict between proponents of market management and market orientation. Poultry processors and processors of any commodity produced under supply management argue that their higher priced supply-managed inputs make them uncompetitive with their American counterparts. Internal divisions within the food processing sector itself led the industry to refrain from either supporting or opposing the FTA and instead, to argue that the government of Canada must either place import controls on all products containing 10 per cent or more of a supply-managed product, or require Canadian producers "to become more sensitive to an open market".[21] The fact that the government chose not to add further processed poultry products to the import control list makes it highly likely that pressure will mount from certain segments of the food processing industry for an end to national marketing boards able to set or negotiate prices and protected by restrictive import quotas.

A further factor that will affect the government of Canada's ability to pursue its preferred MTN strategy will be the political success of its domestic agricultural policy. The key words here are caution, consultation and commitment—caution in moving to decoupled supports, extensive consultation with provincial governments and producers prior to effecting changes, and assurance of a continued financial commitment to protect farmers from forces beyond their control.

In the end, the government's ability to maintain its dual strategy of market management for some commodities and market orientation for others will be affected by the extent to which it is seen to be credible outside Canada, by other parties to the MTN. External perceptions will be affected, in part, by those of the

Canadian farm community and its willingness to accept this as a win-win strategy. Not only the government, but the supply managed sectors must be able to persuade the grains and livestock sectors that Article XI can be maintained and reinforced without jeopardizing trade liberalization. The CFA strategy to focus on the goal of clearer and fairer trade remedy rules does provide a potential common goal and ground for consensus, however narrow, among the diverse interests in the Canadian farm community. In the final analysis, this may be the lowest common denominator around which the Canadian farm community and Canadian governments can unite in pursuit of a fairer international agricultural trading regime.

Notes

1. Statements of the Government of Canada's MTN position regarding agriculture include the following: External Affairs Canada, "Communique: Canada Seeks Basic Reform of World Agricultural Policies", October 20, 1987; Canada, Department of External Affairs, "News Release: Cairns Group Tables Further Negotiating Proposal on Agriculture Trade", July 13, 1988; and Canada, "Agriculture and the MTN: Synopsis", Montreal, December 1988.

2. See the above as well as Edward Greenspon, "Canada breaks ranks with Cairns group on farm support payments", *Globe and Mail*, July 23, 1988, B6.

3. This is the language used by J.C. Gilson, "The GATT Midterm Review and Agriculture: Prospects for Trade Reform in the Uruguay Round", *Trade Monitor*, no. 9, November 1988.

4. Edward Greenspon, "Canada breaks ranks with Cairns group on farm support payments", *Globe and Mail*, July 23, 1988, B6.

5. The "Technical Appendix, Canadian Working Paper on Use of an Aggregate Measure in the Uruguay Round Agricultural Negotiations", May 1988, notes that one advantage of the aggregate measure is that it "leaves a government with a greater flexibility in the choice of means."

6. Agriculture Canada, *1988-89 Estimates, Part III, Expenditure Plan*, 6-28.

7. The Grassley-Baucus amendment incorporated in the 1988 trade bill allows, without a need to investigate, counter-

vailable subsidies to be determined to exist on a processed product if they have been found to exist on a raw product, the demand for which is substantially dependent on the demand for the processed product and if the processing operation adds only limited value to the raw product.

8. Among the studies which examine the economic effects of provincial interventions on behalf of producers are: Michelle Veeman, "The Regulation of Interprovincial Trade in Agricultural Products", in Barry Sadler, ed. *Transforming Western Canada's Food Industry in the 80's and 90's*, (Banff Center, 1984), 55-70; Andrew Schmitz, "Supply Management in Canadian Agriculture: An Assessment of the Economic Effects", *Canadian Journal of Agricultural Economics*, vol. 31 (July 1983), 135-52; M. J. Trebilcock et al., *Federalism and the Canadian Economic Union*, (Toronto: University of Toronto Press, 1983), 324-51; and Elmer L. Menzie, "Free Interprovincial Trade or Provincial Self-Sufficiency in Agricultural Products?", in *Proceedings of the 1982 Annual Meeting of the Canadian Agricultural Economics Society*, June 1983, 108-23. Evidence of growing provincial government awareness of the negative effects of provincial spending includes the participation of most provinces in national tripartite stabilization plans for beef and hogs and their concomitant agreement to reduce "top" and "bottom" loading.

9. See *A National Agriculture Strategy*, November 1986, 3.

10. See the testimony of various farm groups before the Standing Senate Committee on Foreign Affairs, and in particular that of the Canadian Federation of Agriculture, *Proceedings*, Monday, August 8, 1988, Issue No. 30; and the UPA, *Proceedings*, August 10, 1988, Issue No. 32.

11. OECD, *National Policies and Agriculture Trade*, (Paris, 1987), 83; and T. K. Warley, "Issues Facing Agriculture in the GATT Negotiations," *Canadian Journal of Agricultural Economics*, 35 (1987), 515-34.

12. This is the opinion of Professor Ivan Bernier, as stated to the Standing Senate Committee on Foreign Affairs, *Proceedings*, February 23, 1988, 15:34. There is also a belief that the general powers of the government of Canada to legislate for "the peace, order and good government of Canada" would be interpreted to include the right to implement international treaties.

13. See the testimony of Professor Andrew Petter, *Ibid*. 15:7. Moreover, "the extent of obligation clause" in GATT (Article

XXIV:12), which requires that "such reasonable measures as may be available" are taken to honour GATT agreements, may be "sensitive to the cooperative federalist spirit" and would not require provinces to adhere to treaty obligations negotiated by federal authorities which encroached upon their jurisdictional rights (Petter, 15:42). Others have argued, however, that the GATT "extent of obligation" clause is being interpreted to require the federal government to pay compensation if it is unable to secure provincial government's compliance with GATT obligations. This would imply then that Ottawa would have legal authority to compel provinces to comply with international agreements.

14. Anonymous, "Issues of Constitutional Jurisdiction", 45-6 in Peter Leslie and Ronald Watts, eds. *Canada: The State of the Federation 1987-88*, (Kingston: Institute of Intergovernmental Relations, 1988).

15. Standing Senate Committee on Foreign Affairs, *Proceedings*, 32:98.

16. UPA pressure on the Quebec Minister of Agriculture and their combined pressure on the federal government during the FTA negotiations were important in obtaining federal commitments to add yoghurt and ice cream to the dairy import control list.

17. This conclusion stems from interviews with officials administering and supervising national supply management marketing boards.

18. Alan M. Rugman and Andrew Anderson, "Business and Trade Policy: The Structure of Canada's New Private Sector Advisory System", *Canadian Journal of Administrative Sciences*, 4:4, December 1987.

19. Standing Senate Committee on Foreign Affairs, *Proceedings*, 32:103-104.

20. These apprehensions stem from the "Statement of Administrative Action" submitted to the U.S. Congress by the U.S. Administration regarding the U.S.-Canada Free Trade Agreement. See p. 32 regarding intentions to pursue consultations to make the price setting mechanism of the Canadian Wheat Board "transparent to the U.S. Government, producers and processors". Apprehensions were further fuelled by the announcement by the minister in charge of the Canadian Wheat Board in January 1989, without prior consultation with farm organizations, that the Canadian

Wheat Board was being stripped of its monopoly to license imports and exports of oats.

21. George Fleischman, President and CEO, Grocery Products Manufacturers of Canada, in testimony to the Standing Senate Committee on Foreign Affairs, *Proceedings*, August 9, 1988, 31:70.

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5

The United States: Domestic and International Interactions

C. Ford Runge

The complex nature of agricultural protectionism has long served as a barrier to popular and political understanding—a state of affairs useful to the special interests that benefit the most from this protection. The inconsistencies, inefficiencies and inequities that riddle farm policies have usually been of interest only to a relatively small group of specialists. As President Kennedy reputedly told his principal agricultural policy adviser: "I don't want to hear about agriculture from anyone but you. . . . Come to think of it, I don't want to hear about it from you either."

The currently unsettled world agricultural trade situation may be leading to chaos, or to a new order. The outcome of our current disputes over hormones with the European Community (EC) and in the GATT (General Agreement on Tariffs and Trade) may be to liberalize trade, or to plunge world markets into a cycle of protectionist retaliation and counter-retaliation. The parties to the GATT have begun to debate the farm trade issue as part of a broad effort to reform the global trading system. As the GATT discussions of farm trade accelerate, it is clear that agriculture must now take a central place in U.S. foreign trade policy; reform in agricultural policies can be the stimulus for broader trade liberalization and reform. If farm policy is to be liberal, rather than protectionist, it must reflect greater market orientation both at home and abroad, and reduce the distortions that now separate domestic from global markets. Renewing growth through trade, important to the industrialized economies, is even more important to developing countries, where agriculture remains the foundation of economic progress.

Success in this effort will require broader understanding of the domestic causes of agricultural trade distortion. It will require the political courage to discard some of the myths that have protected ineffective and obsolete policies. It will require coordinated, multilateral efforts to rationalize domestic agricultural policies through international agreements. Otherwise, agricultural trade disputes may lead to increased global protectionism and stagnating growth.[1]

Today, I would like to focus on two key aspects of this process. Together, they will determine whether world agricultural trade reform moves forward, or takes a turn toward greater protectionism. One is the relationship between commodity and interest group pressures that will be brought to bear on the new U.S. administration as trade ministers gather to try to salvage agreement from the failures over agriculture at the Montreal summit in December, 1988. The second is the interaction between the Uruguay Round and the farm bill debate in 1990. The concluding year of the GATT round will coincide, roughly, with the 1990 farm bill debate. In addition, I will digress briefly on the important area of domestic health and sanitary regulations as effective barriers to trade—evidenced by the recent U.S./EC hormones dispute.

The Road Not Taken in Montreal

The Montreal trade talks ended in December as they began: with the U.S. and European Community (EC) squarely opposed on agriculture, both threatening to up the ante in the agricultural trade conflict. In the end, there was essential agreement in 12 of 15 negotiating areas, including trade in services and various measures strengthening the GATT system. Disagreements on textiles, intellectual property rights, and especially agriculture, now threaten all other progress, since the rule of the summit was "nothing is agreed until everything is agreed."

In the late stages of the Montreal talks, India and Brazil demanded concessions on trade in intellectual property rights that were unacceptable to the U.S. and EC. Because GATT decisions are made by consensus, any country can halt the play on any item. Demands by India and Brazil on intellectual property were also linked to textiles—one of their most important export sectors.

Nowhere is this kind of linkage more obvious than in agriculture, which emerged in Montreal as the hub around which all other negotiating games revolved. At the beginning of the meeting, European Agriculture Commissioner Frans Andriessen left few in doubt, saying "We are not prepared to discuss complete elimination of support measures, which the U.S. and some other countries now pretend is the objective of the negotiation." U.S. Trade Representative Yeutter responded with equal frankness, asking sharply, "Why not?" The result was stalemate.

With failure to agree on agriculture in Montreal, the April meeting in Geneva looms as a first signpost to watch. The Bush administration's new trade representative, Carla Hills, steps into a complex and demanding situation that will immediately test both her toughness and knowledge of agricultural trade issues. Despite the help she will get from Clayton Yeutter at Agriculture, she will face experienced, resolute European negotiators who have been at the game of agricultural trade talks for decades.

Domestic/international interactions are crucial to explaining her dilemma. The dilemma is that if she compromises too readily, she will be accused of selling U.S. interests short, and support for GATT reform among domestic groups will evaporate. Many of these groups, in my view, have given measured support to the U.S. position in large part because they do not expect it to come to pass. If a more moderate deal looks like it may emerge, these stalwarts will bolt, crying "capitulation."

The other side of Carla Hill's dilemma is that if she hangs too tough, the world will be plunged into renewed cycles of agricultural retaliation, threatening gains made by GATT in many areas outside of agriculture. Many members of the business community outside of agriculture are annoyed that this arcane sector is holding up progress on services, investment, and intellectual property issues in GATT.

Conditioning future GATT discussions is the hormones dispute. On January 1, 1989, the European Community (EC) announced a ban on all beef imports from the United States containing hormones used to help fatten cattle. Citing health risks, the EC action touched off a cycle of retaliation. This apparently isolated example of health regulations acting as trade barriers is part of an emerging pattern of domestic environmental and health issues with major consequences for the world economy.[2] These consequences are especially important to trade between developed and developing nations.

The hormones dispute is part of an emerging problem: environmental and health risks are increasingly traded among nations along with goods and services. These risks are the opposite of services—they are environmental and health disservices traded across national borders. These problems arise directly from the transfer of agricultural technology, and will increasingly affect international investment flows, trade and development.

Let me give you a few examples:

- The American Soybean Association has conducted a campaign emphasizing the health risks of palm oil, which competes directly with soybean oil in the processed food market. Palm oil is produced almost entirely in developing countries, notably Malaysia and coastal Africa.
- In 1988, a major controversy broke out over Italy's shipment of tons of hazardous wastes to Nigeria. The wastes, expensive and difficult to dispose of in the EC, were shipped for disposal where regulations are considerably less stringent. After the action provoked an international incident, they were returned.
- In 1987, the Sandoz chemical plant in Basel, Switzerland was the site of an environmental calamity, when tons of fertilizers and chemicals spilled into the Rhine River, killing fish and aquatic life along hundreds of miles. Largely lost amidst the public uproar was the fact that the majority of the toxic products spilled, while manufactured in Switzerland, were destined for markets in developing countries.

This emerging pattern of trade arises from three sources. The first is the increasing role of chemicals and fertilizers promoting agricultural productivity. This links environmental and health concerns to agricultural policy as never before. Agriculture is a natural meeting point for environmental, health, and trade issues. Food and human health are intimately connected; agriculture is increasingly dependent on chemical and fertilizer inputs; it also is a major trade sector in developed and developing countries.

The second source of the problem is the emergence of a two-tiered international structure of environmental regulation. Increasingly stringent rules and regulations in developed countries result from a rising concern with environmental quality and human health. In most developing countries, however, food production and agricultural development remain the primary focus of concern. This creates incentives to export restricted agricultural and industrial chemicals—or whole production processes—from North to South.

Third, when products carrying risks are reimported into developed country markets, competing producers may demand protection, converting environmental and health concerns to non-tariff trade barriers to market access. As international trade increases, the linkages from environmental and health concerns to agriculture take on significance for organizations such as the GATT which has made them a focus of the agricultural trade negotiations in the Uruguay Round.

In developed countries, increased costs of production resulting from stricter regulations put producers in a less competitive cost-price squeeze, adding to their incentives to fight imports through environmental or health restrictions, as in the hormones dispute. In developing countries, meanwhile, heavy use of pesticides, herbicides and fertilizers marketed without regulation is leading to major health and environmental impacts.

Uruguay Round/Farm Bill, 1990

If the April meeting of trade ministers brings accommodation and willingness to move forward in the GATT (perhaps accompanied by an agreement to settle the hormones dispute), the stage will be set for progress on domestic agricultural policy reform during 1989-90 in Washington. But a reverse dynamic—toward less liberal trade and greater protectionism—is also possible if progress appears stalled. Keep in mind that the most protected sectors in agriculture would find a trade war very helpful in the short run. Elected representatives of these special interests would benefit from trade conflict by emphasizing the short-term rewards of protection and their own "toughness."[3]

Yet there remain specific areas in which discussion and progress is ultimately possible, especially if the Geneva session in April can focus clearly on guiding principles for reform. Each of these involves building domestic constituencies.

First, direct payments to farmers will remain the principal alternative to current policies, although movement in this direction will be difficult. The key negotiating objective should be the phased elimination of those measures with the greatest distorting effects on trade, notably set-asides and supports that deny planting flexibility, and the substitution of an income "safety net" in their place. It is unnecessary to maintain that the final outcome be no supports whatever, if the principle of phased elimination to much lower levels of price support can be established as a binding obligation under GATT. The overall effect, especially if acreage retirement is also eliminated except on fragile lands, will be to enhance diversified cropping mixes, creating demand for research into new crop alternatives and widening the base of agricultural productivity gains.

A second guiding principle is that social welfare objectives of agricultural policies should be a part of the discussion in GATT. These may appear tangential, but can be crucial to selling policy reforms to domestic interests, and relating them to various titles of the 1990 Farm Bill dealing with rural employment and environmental quality objectives. In the United States the agriculture committees of Congress must be able to convince their constituents (both commodity and consumer groups) that the United States has gotten a "fair deal" in GATT. This deal must find acceptance with farmers and the non-farm public alike.

Selling trade reform can only be done as part of a package, the bulk of which involves domestic policy issues. In my view, domestic agricultural policy must therefore be expanded to encompass rural employment issues and environmental quality objectives, together with farm income security, as the three pillars of policy. Trade reform then fits into this package of benefits. Linking trade policy reforms to environmental and rural employment objectives in the 1990 Farm Bill can enhance not only the attractiveness of the overall package, but its impact on dollars flowing into rural development and revitalization.

Given the entrenched interests and the profound difficulties facing agricultural policies, however, the temptation to blame foreign governments for failed domestic policies remains strong. Negotiators in both the United States and the European Community can engage in recriminatory charges and counter-charges, followed by renewed subsidy wars, without serious short-term losses in domestic political terms. The trade situation can thus lock into a domestic political environment in which high levels of trade conflict make continued price supports and policy distortions at home more politically defensible.

Conclusion

Looking ahead to 1990, the intermediate prospects for GATT and domestic agricultural policy reform look difficult, as do the April meetings in Geneva. Europe is increasingly confident of being able to trade *en bloc*, and willing to be regarded as collectively protectionist in order to capture the benefits of an internal market. Looking across the Atlantic at a newly unified North American trading bloc, the European Community sees serious competition requiring comparable measures.

Is the hormones dispute the 1980s equivalent of the Guns of August? Will the road to 1990 be two years of economic trench warfare? I remain optimistic that, in spite of these threats, it will be possible to clear a path to trade policy reform. But it cannot be done easily, nor, as I have emphasized, without specific attention to domestic/international interactions.

Notes

1. Carlisle Ford Runge, "The Assault on Agricultural Protectionism," *Foreign Affairs*, Vol. 67, No. 1 (Fall, 1988), 133-150.

2. Hon. Richard Nolan and C. Ford Runge, "Trade in Disservices: Environmental and Health Damages in International Trade." A speech prepared for the Conference on a Magna Carta for International Economic Development: Rights and Responsibilities of Investors and Developers of Industrialized and Industrializing States, Port-of-Spain, Republic of Trinidad and Tobago, January 19-22, 1989.

3. Robert Paarlberg, *Fixing Farm Trade: Policy Options for the United States*. (Cambridge, MA: Ballinger Publishing Company, 1988).

6

The European Community: Balancing International Pressures and Domestic Demands

Alan Butt Philip

I think I am the only person from the European Community here today, but I don't intend to defend every iota of the Common Agricultural Policy. Perhaps I can borrow from Shakespeare and say I come here neither to praise the Common Agricultural Policy nor to bury it.

It would help to review a little of the background of the Common Agricultural policy in order to understand why the Europeans behave as they do when discussing agricultural trade. For the Common Agricultural Policy is neither common nor agricultural nor a policy. It is not common because it is vitiated in many ways by national aids and interests, even in the setting of common prices. It is not agricultural because its aims are not just agricultural. Indeed, a recent document from the European Commission itself justified the Common Agricultural Policy (CAP) really on four grounds, two of which could be classed as agricultural—an economic sector of strategic importance and a sector, it said, with special conditions of production; and two of which are clearly not agricultural as such—the CAP being seen as a contribution to the protection of the environment and as support for a way of life.[1] Then it is said the CAP is a policy—well, it isn't a single policy in that the details of the product regimes are very different and in quite marked contrast one with another, comparing say a regime like the cereals or the milk products regimes with those governing fruit and vegetables. The CAP is the product of decades of compromise between member states which have built up a policy edifice of stunning complexity, supported by a web of interlocking interests both at European and national levels. The system that has resulted is comprehensible only to a few aficionados, policy makers and lobbyists, who are thus able to operate the policy for most of the time in a secret garden which is largely inaccessible to non-agricultural interests and beyond comprehension of most journalists or interested outsiders.[2]

Of course, the closed nature of this system and its resultant behaviour, eccentric to outsiders but wholly logical and predictable to insiders, has caused strains in the whole EC machinery, which has forced other powerful elements in the Community to interfere with its operation. But the argument that I will advance today is that while some of the reforms of the Community's agricultural policies are in hand, largely driven by budgetary pressures, the foundations of the CAP remain broadly intact, unmoved by the experiences in the 1980s and the changing balance of conflicting pressures between those which favour the present CAP system and those which promote reforms. The CAP is still very much tilted towards the status quo, although it is changing. The CAP attempts to legislate for 12 different countries and at least 24 different product regimes, where the interests and competence and traditions of producers and nations are all vastly different.

Let us look at the post-war agricultural environment in which this has developed, for history has played a vital part in determining the nature of today's CAP. This is because the decision-making processes of the Community are so cumbersome and drawn out and difficult to steer through that once the Community does reach agreement on an issue, it is very hard to unpick that agreement. Much of today's CAP therefore represents the weight of past priorities in Europe's agricultural policy, rather than today's needs. In Europe we refer to this as part of the "acquis communautaire". The phrase suggests more than just a particular policy mix, but also irreversible gains for European integration that have been won with great difficulty and ought never to be challenged. The principles of the CAP were agreed to in the mid-1950s and many of the detailed rules of a product regime were drawn up in the 1960s and are still in place. The CAP is therefore the product of a different age in agriculture and in its present form is therefore clearly an anachronism, which nevertheless has considerable capacity to wreak havoc on the global market for agricultural products and on the development of the Community itself. It was set up at a time when memories of food shortages after World War II were still very sharp. It was set up in response to a long tradition of agricultural protectionism in various founding member states. It was set up when the importance of agriculture in the economy of EC member states was much greater than it is now. In the mid-1950s the original six members of the EC had 17.5 million farmers. By the mid-1980s in those same six countries there were only 5.5 million left, a drop of some 70 per cent. In the 1940s over a third of the employed population of France and Italy were engaged in agriculture. Today that figure is around 10 per cent or less. Also, it must be remembered that many people retain positive images of the rural society, and the role of farming and farmers within that society. Indeed many more people were brought up in rural areas than now live in them. And in a key EC state, the Federal Republic of Germany, a majority of the population is still living in rural areas, even though they don't necessarily work there.[3] The rural idyll is still a symbol of a tradition, a social order and a high quality environment which is a frame of reference for many to which political appeals can successfully be made. Public opinion polls still show that there is a lot of support for the CAP. A recent Euro-barometer survey, conducted in February 1988, found that a majority of EC citizens accept the need to subsidize agriculture, but also stress the need for reform.[4] Almost one in two persons interviewed, or more than 7 out of 10 expressing an opinion, agreed that although there is a lot to criticize and to put right in the European agricultural policy, on balance it is worthwhile. The formation of the Community forced a choice on the original member states, either to allow full rein to market forces in the trade of agricultural products within the Community, or to harmonize the different systems of agricultural protection at the European level and thus to allow free trade across the borders within the European Community. In fact, the latter option was chosen. And even so, free trade across borders, in agricultural products, only lasted for two years, from 1967 to 1969. But this original decision, to institute a Common Agricultural Policy, was part of the famous Franco-German bargain struck during the negotiation of the original EEC Treaty in 1955-56.

Let us look at the framework itself. The CAP system is based on Article 39 of the EEC Treaty which lays down five objectives for the policy: to increase agricultural productivity; to ensure a fair standard of living for those engaged in agriculture; to stabilize markets; to assure the availability of supplies; and to guarantee reasonable prices for consumers. These are not necessarily compatible objectives, as is plain to see. No established priorities were given as between those objectives, and indeed the objective that in practice seems to have worked out as having priority is the one "to ensure a fair standard of living for those engaged in agriculture", usually seen in relation to the earnings of industrial workers.

In 1960 the Community decided that the CAP should be based on three principles: the single market; Community preference (which meant protection against low priced imports and excessive world price fluctuations); and joint financial responsibility of all the member states for the policy. The agreement on the CAP system was only achieved after considerable political manoeuvring and the calling into existence by the European Commission of dozen and dozens of EC-wide agricultural interest groups with whom the Commission was able to build up a consensus on the shape of a Common Agricultural Policy to come. Individual product regimes have been established for all significant EC farm products, except potatoes and wool. They all differ from each other, partly for reasons which reflect the nature of the products, markets, and their potential for storage and disposal, and partly for reasons which are plainly political. The principal chosen method for supporting agriculture has been by means of the authorities intervening in agricultural markets to support a pre-determined bracket of product prices. The funds for this purpose are voted each year in the EC budget to the European Agricultural Guidance Guarantee Fund, the French acronym being FEOGA, which I shall use below. This was backed up by a system of levies and subsidies at the EC's external frontiers in order to retain the integrity of the internal support system with all the obvious implications that has for international trade.

Throughout the 1980s, funds allocated to FEOGA have accounted for between 60 and 80 per cent of the entire EC budget each year. In 1989 the percentage of the budget allocated to FEOGA was set to fall to a record breaking low of 59 per cent. When the United Kingdom joined the Community in 1973 it was forced to switch from a deficiency payment system of agricultural support to the system of "intervention", from which its farmers too have benefited and which has been accompanied by a marked rise in the United Kingdom's own degree of self-sufficiency in agricultural production.

For most of its life the CAP's intervention system of price support has represented a licence to farmers to overproduce. It has been an open-ended financial commitment which the Community's budget has had to support. Ultimately, when the costs of the policy have over-reached the resources of the Community budget, the member states themselves have had to pick up the bill. The price support system has greatly benefited the larger farmers in the European Community in order to provide a minimum subsistence income for the smaller farmers, with more generous regimes being offered to the farmers of so-called "northern" products, cereals, milk, beef and veal, and sugar.

Another aspect of this is that the intervention system of price support has overwhelmed the structural objectives of the CAP.

Originally it was planned that under FEOGA the ratio of spending between price support and structural objectives should be of the order of two to one. In 1987 the ratio was 27 to 1. Only in the last year with the new emphasis on extensification measures and set aside of agricultural land have structural issues even returned to centre stage.

A second point here that I think needs to be looked at are the decision-making problems associated with running a Common Agricultural Policy. The first is the rule of unanimity in the Council of Ministers, which is the most important decision-making institution in the Community. The rule of unanimity means that it is very difficult to get agreement on anything and very difficult to secure change. Its use has been in slight decline since 1982, but nevertheless it acts in favour of the status quo and makes it, for example, extremely difficult for the Community to negotiate any mandate for international trade negotiations. This is one reason why the European Community representatives in agricultural trade matters, where there are so many fundamental internal disagreements, often find it very difficult to say anything.

Secondly, the status of agricultural expenditure is "obligatory" within the legal system of the Community. This prevents any real parliamentary influence or sanction over the handling by the Council of Ministers of expenditure plans. So these funds are largely outside direct democratic control. Thirdly, the system of annual budgeting of the Community has in the past prevented long-term policy making. Fourthly, the compartmentalization and fragmentation of the Council of Ministers itself into discrete agricultural, finance, and foreign minister councils which do not control each other has led to what one would mildly describe as inconsistencies of policy—with the agricultural ministers able on one day to vote measures which it has left to the finance ministers the next day to find the means to pay for. Fifthly, there is a long history of political discontinuities in the Council of Ministers, meaning a change-over of ministers in the agricultural sector, although most importantly without much change-over in the Federal Republic of Germany, which in the last 20 years has had just two agricultural ministers. Equally the Council has also suffered from constant political changes, changes of government in one or other member states and the necessities of being tactful at times when any one member state has got an important election on hand. When you have 12 member states, several of them with important regional and provincial elections to defend, there are very few opportune periods of time for difficult decisions to be reasonably taken and for political candour to be tolerated.

The tables appended to this paper give data about agriculture and agricultural trade in the Community. Table 1 shows that there are over 10 million farmers or farm workers in the European

Community—that is about four times the number in the United States. And they operate on some 9 million farms (Table 3). It is also most clear, in Table 1, what a wide variety of contributions agriculture makes to the GDP of the 12 member states individually—2 per cent in the case of the United Kingdom, 17 per cent in the case of Greece. Table 1 also reveals the wide range in importance of agricultural employment: 2.5 per cent in the United Kingdom, as against 22 per cent in Portugal and 29 per cent in Greece. Table 2 indicates the importance of agricultural exports as a share of all exports, with seven member states producing a score of over 10 per cent, and four of them with a score of over 20 per cent, 20 per cent of their exports being in the form of agricultural exports. Those four states are the Netherlands, Denmark, Greece and Ireland. It must be said that the majority of these exports were made to other EC member states. Table 3 demonstrates the enormous variation in the size of farm holdings, with the UK average farm holding being twice as big as those of any other member state and 16 times as large as the average holding in say Portugal or Greece. Table 4 reveals the dominance of milk, cereals, beef and veal and sugar regimes in the allocation of funds from the FEOGA, with rising expenditures on oils and fats in the 1980s also showing through. Table 5 looks at the importance of FEOGA payments as a share of national receipts from the EC budget. You will see from this table that nine member states received between 58.5 per cent and 95 per cent of all their receipts from the Community budget this way. Table 5 also shows a somewhat skewed distribution of spending on structural measures with relatively high receipts being shown for structural measures in France and the United Kingdom compared with the much greater needs of countries like Italy and Spain.

Why are agricultural policy interests so dominant in the European Community? The first point to make is that the Common Agricultural Policy has a legal basis in the EEC Treaty, reflecting all the history of food shortages and the high farming population in the 1950s when the policy was originally put together. Second, there are very strong producer organizations supporting the policy, especially in the Federal Republic of Germany, United Kingdom, France, Denmark and the Netherlands. They are well-resourced, and they are well-inserted into party and policy networks. There is the example of Herr Joseph Ertl, Agriculture Minister of the Federal Republic, continuously from 1969 to 1982; or that of Monsieur François Guillaume, formerly Secretary-General of the largest agricultural producers organization in France, recruited to be Minister of Agriculture, between 1986 and 1988; or there is the case of Sir Henry Plumb, now Lord Plumb, a former President of the National Farmers' Union of the UK, now currently President of the European

Parliament. And those resources available to farmers, those insertions into a party and policy networks, stand in clear contrast to the weakness of other organizations with whom they might be in competition, for example the food industry, whose divisions of interest and commercial conflicts are legion, or the consumers, or the environmentalists.[5] Let me just take the organization at the European level of consumers—the BEUC. They boast a staff of about 10 compared, for example, with a staff of 44 available to COPA, the Agricultural Producers' Organization.[6] Thirdly, the producer lobby is very strong in Brussels, and this can be accounted for by its long relationship with the European Commission in which COPA enjoys a special position, which is legally sanctioned by the EEC Treaty. The Commission has a right of initiative which is not available to other bureaucracies and its Directorate-General for Agriculture (DG-6) is really by far the largest and strongest Directorate-General (equivalent to a Ministry if you like) on the scene. As well, the agriculturalists are well represented in the European Parliament and the Economic and Social Committee of the Community, with roughly 10 per cent of its members having an agricultural background. And finally, the producers dominate the membership of the Community's advisory committee on agricultural matters.

Then there is the fact, widely observed in Europe, of the insulation of national ministries of agriculture from other ministries at national level. This is combined with the fragmentation of ministerial function in the Council of Ministers, which I have already referred to, leading to agricultural policy makers operating separately from finance or foreign ministers. In this context there have been particular difficulties experienced over many years in coordinating the official government view of the Federal Republic of Germany where conflicts between finance and agriculture ministries have been continuous.

There is the further point that the CAP is seen ideologically as the first genuine European common policy. Because of its first common policy status and because of the extent to which it has developed over time, support for the CAP had often been seen as being a touchstone of support for European integration generally.

The keen economic and political interest in agriculture of so many member states is to be accounted for in very simple economic and political terms. Member states can be classified in the following way. Those countries where more than 10 per cent of the employed population are employed in agriculture: that accounts for five member states of the twelve—Greece, Portugal, Spain, Italy and Ireland. Then there are those countries where 10 per cent of their total exports are accounted for by agricultural products. Seven member states fall into that category of whom three do not fall into the first category just mentioned—those three being Denmark, Netherlands and France. We now have eight states with particularly strong interests in agriculture. Finally, there are two countries where the political importance of farmers is out of all proportion to their objective weight in the total economy. Those two countries are the Federal Republic of Germany and Belgium. In the Federal Republic's case, farmers provide critical votes for the small Liberal Free Democratic Party, critical in the sense that they are needed for the Party to get over 5 per cent of the total national vote in order to get any parliamentary representation whatever, and those votes are particularly at the regional level in Bavaria and Schleswig Holstein. Bavaria is the home of Herr Joseph Ertl who, for 13 years, was the Federal Republic's Agriculture Minister. Still with Germany, the Bavarian farm interest is also represented by the small sister party of the ruling Christian Democrats, the Christian Social Union, who now supply Germany's Agriculture Minister, Herr Kiechle. And the farm lobby generally in Germany has been ready to withhold its votes from the centre-right parties and to deny them power without actually going over to the opposition, and has done so successfully.[7]

In Belgium, as mentioned, there are very close links between the Flemish farmers and the CVP, which is the largest single political force in Belgium. It has been present in every government for the last 30 years and is a critical element in the precarious coalition building underpinning Belgian governments. That leaves only two countries not accounted for—Luxembourg and the United Kingdom. Luxembourg tends traditionally to vote with Belgium and the Netherlands as part of the Benelux bloc, and only the United Kingdom has a significant consumer lobby and consumer interest and a strong interest in agricultural trade which together are more active and important than the interests of the farmers alone.

There are a number of points in this system which indicate the importance of domestic national influences on the construction of the European policy. The first is the decision-making system of the Community itself. In the Council of Ministers, the rule of unanimity gives rise to the national veto, the fragmentation of Council roles exaggerates the influence of national ministers of agriculture in the system, and in the Community it is the Council that dominates on budgetary questions. In the Commission there is the relative strength of DG-6 vis-à-vis other Directorates-General that are in charge of, say industry and the internal market, which covers the food industry, or DG-1 which covers external trade. Still in the Commission, there is considerable compartmentalization of roles of the different Directorates-General in which they pursue their separate policies with almost autonomous jurisdictions without a great deal of coordination.

And within the Commission there is an important representation of national interests at key points. Although the officials that serve the Commission have pledged loyalty to the wider interests of the Community, it cannot be unnoticed that in DG-6 the Director-General is always French, the section dealing with milk is always directed by Irishmen, the section dealing with wine is always directed by an Italian, the section dealing with cereals is always directed by a French person. Until 1989 in the entire history of the Community only two countries have ever provided the Agricultural Commissioner, Denmark and the Netherlands. Precedent was broken this year with the announcement of an Irish Commissioner for the next four years, but scarcely a radical departure when all their countries of origin are particularly dependent on agriculture. Still with the Commission there are the imbalances in the lobbying power of the different interests, with special clientelistic relations with producers developed over 30 years by DG-6 underscored by specific EEC Treaty provisions demanding producer consultation. In short, the decision-making system helps greatly to reinforce domestic national influence on European policy.

Secondly, the system of green currencies produces a similar result. A system of monetary compensatory amounts and green exchange rates instituted in 1969 effectively undermines the notion of common European prices. Price cuts agreed at the European level can quickly be made, when converted into green currencies, into price rises for particular national groups of farmers. Thirdly, there remain a large number of national aids despite the harmonization of national agricultural protection systems at the Community level. National aids in the agricultural sector have not been controlled in the same way that state aids to industry have been policed by the Commission. And the restructuring of agriculture in the present environment is actually putting a bigger burden on national governments to produce national subsidies to farmers to supplement the costs of EC agreed-to common policies. Fourthly, under this heading there is the matter of implementation. The implementation of CAP rules is only as strong as each member states' administrative apparatus permits. Given that this is not uniformly strong or watertight, there is an enormous industry in smuggling and fraud across Community frontiers, recently highlighted by the Community's own Court of Auditors, and a certain inability to implement agreed Community policies as we saw when the Italians were unable to set up a system for introducing milk quotas as agreed in 1984.[8]

Finally, what are the pressures for reform? There are not too many, but they are significant. The real pressure for reform comes from budgetary factors. The Community has several times run out of money in the 1980s and now, with the advent of the single

European Act, has had to find resources to pay for the extra structural funds with which to lubricate the implementation of the single market. There was growing annoyance with the volatility and unpredictability of the costs of the CAP, especially the costs of export refunds which essentially are outside anybody's control and rely on a particular configuration of EC production levels, world market prices and the dollar-ecu relationship. In addition, the rising costs of storing the rising food surpluses up to now have become intolerably large—surpluses of the Community which have until this year not even been accounted for properly in the Community's budget. These pressures have led to the introduction of budgetary stabilizers and the tightening of intervention conditions, for example the restriction of the marketing year for intervention purposes, and the insistence on ever higher quality standards in order for producers to benefit from the intervention system. But in my view the budgetary pressures only attack the symptoms and not the cause of the problem, the cause being the system of price support itself. Budgetary measures so far are not sufficient to contain any big changes in the dollar-ecu currency relationship, or in world prices generally. So the foundations of the CAP have not been undermined except by some renationalization of policies which will make it harder to impose a single-policy pattern in the future from Brussels. It should also be noted that the single European Act signed in 1986, which was the first substantial amendment of the EEC Treaty, really doesn't cover agriculture at all. But it does significantly alter the direction of the European Community's future development which should make it easier to discuss CAP reforms and to demythologize the CAP's contribution to European integration.

Secondly, there are some structural pressures. Continued surpluses and related disposal policies are politically unpopular as well as being financially ruinous to the Community's budget. Improved yields and technology will doubtless continue to put pressure on the Community for further policies to adjust production. And it is clear that the guidance section of FEOGA needs to claw back funds from the guarantee section if it is to get off the ground, and succeed in securing a higher quality rural environment at a time of retrenchment and restructuring in European agriculture.

Thirdly, there are international trade pressures. There have been a series of embarrassing trade effects of the CAP, leading to trade disputes, especially with the United States, which have upset a number of member states, notably the United Kingdom, the Netherlands and Denmark. Clearly the views of the GATT countries are important to EC member states individually, especially those with a major interest in world trade outside agriculture—the United Kingdom, Germany, France, the

Netherlands—as well as being of more general concern to the Community as a body. But the EC has difficulty in reaching common positions itself ahead of trade talks, which makes negotiating away an already compromised mandate extremely difficult. Within the Commission it is the job of DG-1 to prepare for trade talks, but DG-1 is not really up to the weight of DG-6 and there is a need for those who wish to encourage the liberalization of trade to find allies in the Community generally and within the Commission to keep up the pressure. Within national governments the same could be said. The trade ministers are not as powerful as agricultural ministers and even the outspoken opposition of the German Federation of Industries has not cracked the influence of the Deutsche Bauernverband—the farmers' union. But international trade pressures may well force the interests of prime ministers and finance ministers and so on at national government and EC levels into demanding changes over time. That is the operative point, over time. The CAP system is so deeply entrenched that to expect some kind of complete recantation rather like Saul on the way to Damascus is to demand the impossible.

Now there are other interests that can be martialled in support of trade liberalization: the Third World development lobby, the environmentalist lobby, the consumer lobby, and the food industry lobby which complains of technological ossification forced on it by restricted access to cheap products within the Community. But I would conclude by saying domestic EC pressures dominate the focus, style and operation of the European Community's agricultural policy, and international trade concerns are definitely secondary. In that context national interests within the EC framework dominate the construction and management of agricultural policy. The budgetary pressures do not attack the policy framework, only the symptoms, nor do they limit effectively the possible costs of the policy in the future. The farm lobby, although in decline, is still very strong in relation to other interests. But it is uncertain as to how to respond to external criticisms. In a period of restraint it risks division by product groups, but it is being carried forward by the weight of the past consensus behind CAP, its privileged position vis-à-vis the Commission, and DG-6 in particular, and by the chronic divisions and weaknesses of possible sources of countervailing pressure. The prospects for CAP reform are perhaps better than ever, but they are still not brilliant.

Notes

1. *The Common Agricultural Policy and Its Reform*, European Documentation, Periodical 1/87 (Commission of the EC, 1987). Among many recently published works on European food and agriculture issues, Michael Franklin's *Rich Man's Farming* (London: Royal Institute of International Affairs and Routledge, 1988) and Guenther Schmitt's article "Agricultural Policy Decisions in the EC: the Consequences of Institutional Imbalance", *Food Policy*, November 1986, are particularly worth consulting.

2. See Oliver Gray, "The Role and Significance of Pressure Groups in the Agricultural and Food Sectors of the European Community" (Unpublished Ph.D. Thesis, University of Bath, 1989).

3. National Consumer Council, *Consumers and the Common Agricultural Policy*, chapter 7 (London: National Consumer Council, 1988).

4. Euro-barometer survey findings quoted in National Consumer Council, *op. cit.*, Appendix I. Euro-barometer opinion surveys on a variety of questions are published twice a year by the Commission of the European Communities.

5. See Oliver Gray, *op. cit.*, chapters 3 and 7; National Consumer Council, *op. cit.*, 295.

6. A. Butt Philip, *Pressure Groups and the European Community* (London: UACES, King's College, 1985).

7. National Consumer Council, *op. cit.*, 132 et seq.

8. EC Court of Auditors, *Special Report* 2/87, in EC Official Journal C266, October 5, 1987.

Table 1
The Role of Agriculture in the EC Member States (Employment and GDP Data)

Country	Those engaged in agriculture as % of total civilian employment (1986)	Share of agriculture in GDP (1986)	Numbers engaged in agric. [1969]	Numbers engaged in agric. [1986]
Belgium	2.9	2.5	191,000	103,000
Denmark	6.8	5.0	276,000	178,000
F.R. Germany	5.3	1.8	2,395,000	1,345,000
Greece	28.5	16.6	n.a.	1,026,000
France	7.3	3.7	3,011,000	1,536,000
Ireland	15.8	10.2	298,000	168,000
Italy	10.9	5.0	3,951,000	2,242,000
Luxembourg	4.0	2.6	16,000	6,500
Netherlands	4.8	4.2	339,000	248,000
U.K.	2.6	1.8	734,000	619,000
EC-10	7.0	3.4	n.a.	7,472,000
Spain	16.1	6.1	n.a.	1,742,000
Portugal	21.9	n.a.	n.a.	890,000
EC-12	8.3	n.a.	n.a.	10,104,000

Source: European Commission.

Table 2
The Place of Agriculture in the External Trade of EC Member States

Country	Share of *imports* of food/agric. products in import of all products (1986) (%)	Share of *exports* of food/agric. products in export of all products (1986) (%)	External trade balance in food and agricultural products (1986)-ECU millions
Belgium/ Luxembourg	12.8	6.4	- 1,508
Denmark	17.6	25.7	+ 1,078
F.R. Germany	13.6	3.6	- 7,707
Greece	13.5	27.2	- 86
France	15.8	12.6	- 824
Ireland	11.5	27.6	+ 602
Italy	16.2	5.2	- 5,015
Netherlands	19.9	20.6	- 2,174
U.K.	14.8	6.7	- 5,560
EC-10	15.3	8.2	-21,194
Spain	20.7	15.1	- 1,801
Portugal	33.8	14.3	- 1,002
EC-12	15.7	8.4	-23,997

Source: European Commission, The Agricultural Situation in the EC (1987).

Table 3
EC Agricultural Structures and Production

Country	Number of agricultural holdings (1985)	Utilisable agricultural area per holding (ha) (1985)	Final value of agricultural production (1985) - ECU millions
Belgium	98,000	14.1	5,391
Denmark	92,000	30.7	6,701
F.R. Germany	740,000	16.0	26,859
Greece	952,000	4.3	7,887
France	1,057,000	27.0	41,062
Ireland	220,000	22.7	3,815
Italy	2,801,000	5.6	33,964
Luxembourg	4,000	28.6	164
Netherlands	136,000	14.9	14,162
U.K.	258,000	65.1	19,429
EC-10	6,359,000	13.9	159,432
Spain	1,818,000	12.9	20,356
Portugal	769,000	4.3	n.a.
EC-12	8,947,000	12.8	n.a.

Source: European Commission, the Agricultural Situation in the EC (1987).

Table 4
Distribution of Guarantee Section Payments from EAGGF — 1987 (ECU millions)

Market	Payments	Share of market payments received by main beneficiary countries
Milk products	5012,9	(29% to Netherlands, 23% to FRG, 21% to France)
Fats and protein plants	4413,7	(33% to Italy, 18% to FRG, 18% to France)
Cereals and rice	4236,6	(41% to France, 17% to FRG, 15% to UK)
Meat, eggs and poultry	3033,1	(33% to France, 15% to FRG, 15% to Ireland, 13% to UK)
Sugar	2035,6	(38% to France, 21% to FRG, 13% to Netherlands)
Fruit and vegetables	967,1	(62% to Italy, 24% to Greece)
Tobacco	803,6	(48% to Italy, 31% to Greece)
Wine	800,3	(53% to Italy, 33% to France)
Various markets	942,8	(23% to Greece, 15% to Netherlands, 12% to UK)
Agri-monetary measures	654,9	
Other expenditure	51,2	
TOTAL GUARANTEE SECTION PAYMENTS	22951,8	(25% to France, 17% to FRG, 17% to Italy, 13% to Netherlands)

1 ECU = US$ 1.29 (30.12.87)
Can. $ 1.68
£0.70

Source: Derived from EC Court of Auditors, Report for the year 1987, Official Journal C316, 12 December 1988.

Table 5
Payments from European Agricultural Guarantee and Guidance Fund (1987) — ECU millions

Country	Guarantee Fund	Guidance Section	EAGGF Total	EAGGF receipts as % of total receipts from EC budget
Belgium	821,3	18,7	840,0	85.0
Denmark	1057,4	15,7	1073,1	94.0
F.R. Germany	3992,4	128,3	4121,0	91.0
Greece	1340,5	78,0	1418,5	75.5
Spain	601,6	21,2	622,8	31.0
France	5657,0	237,2	5894,2	87.0
Ireland	954,9	87,0	1041,9	69.5
Italy	3899,7	146,3	4046,0	77.0
Luxembourg	1,5	4,5	6,0	50.0
Netherlands	2727,8	17,1	2744,9	95.0
Portugal	146,6	28,3	174,9	24.0
U.K.	1747,2	80,9	1828,1	58.5
Other	3,6	--	3,6	4.0
EC-12 TOTAL	22951,8	863,2	23815,0	[77.3%]

1 ECU = US$ 1.29 (30.12.87)
Can. $ 1.68
£0.70

Source: EC Court of Auditors, Report for the year 1987, Official Journal C316, 12th December 1988.

7

Japan: The Political Economy of Trade Policy Reform*

Young Whan Kihl

The recent moves in Japan's agricultural trade policy reform are the consequences of an interplay of changing political economy forces both within and outside the country (Yamamura and Yasuba, 1987). As Japan continues to accumulate its favourable balance of trade and current account surpluses, the pressures have mounted to lift its ban on agricultural imports, and thereby liberalize its protected domestic market. However, this external pressure alone, emanating largely from the United States, would not have succeeded to the extent that it did in 1988 without prior agricultural reform efforts initiated within Japan (Johnson, 1987; Hemmi, 1987).

The decision by the Japanese government to accede to the beef-citrus agreement with the United States, announced on June 20, 1988, marked a historical turning point in Japan's agricultural trade policy. Japan has agreed, for instance, to increase the beef import quota by 60,000 tonnes annually for three years retroactively on April 1, 1988. This will increase Japanese beef imports from 214,000 metric tonnes in 1987 to 394,000 metric tonnes in

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* The author wishes to acknowledge Professor Ross Talbot (Iowa State University) for his helpful comments and Professor Jiro Yamaguchi (Hokkaido University, Japan, and currently at Cornell University as Fulbright Visiting Professor) for sharing his insights on the recent development in Japanese politics.

1990 and, by April 1, 1991, will eliminate the beef import quota completely.[1] In this way Japan is signalling to the world that it is ready to move away from the hitherto protected domestic market toward a greater free and open market for imports of agricultural products.

This essay will examine the nature of Japan's current attempt at agricultural trade policy reform by looking into the dynamics of Japan's domestic political processes that influence agricultural trade policy making. What are the sources of influence, both outside and within Japan, that triggered the process of agricultural policy reform? Who are the political elites and institutional actors participating in and responsible for the political process of economic reform policies? What policy agenda and conflict issues are evident in the area of agricultural politics? To answer these and related questions this essay will be organized into five parts: (1) external pressures on domestic economic policy reform, (2) the ruling coalition and party politics, (3) macroeconomic policy reform and agriculture's place, (4) strategic plans for economic and agricultural reforms and (5) the future prospects and conclusion.

External Pressures on Japan's Economic Policy Reform

Japan's latest moves toward agricultural policy reform would not have taken place in the absence of Japan's untenable stance as a nation with an excessive trade surplus in the 1980s. This economic reality is upsetting the balance and stability in the world economy. In 1985 alone Japan's current account surplus was 3.6 per cent of its GNP. As the surpluses continue to accumulate, Japan has become the world's largest creditor nation.

Japan is the world's second largest economy, after the United States, and accounts for one-tenth of the world GNP. As the third largest trading nation in the world, next to the United States and West Germany, Japan's trade in 1987 was US$353 billion, with total exports of $224.6 billion and imports of $128.2 billion, enjoying a favourable trade surplus of US$96.4 billion. Japan's current account surpluses have been rapidly increasing in the 1980s: from US$4.7 billion in 1981, US$35 billion in 1984, US$85.8 billion in 1986, and US$87 billion in 1987 (JEI Report, October 14, 1988, p. 3).

External pressures on Japan's new agricultural trade policy of 1988 originated basically from three sources: (1) the dynamics of U.S.-Japanese trade negotiations, (2) the GATT rulings, and (3) the mounting trade and current account surpluses.

U.S. Pressures for an Open Market

Japan is the world's biggest net buyer of farm commodities and the single largest importer of U.S. agricultural exports. It accounts for close to 20 per cent of U.S. sales abroad in recent years. Given the excessive U.S. trade deficit with Japan, which in 1987 amounted to US$59.9 billion, it is not surprising that U.S. pressure has mounted in an effort to force Japan to open its protected domestic agricultural market. Of the total U.S. trade deficit of $171.2 billion in 1987, the U.S. deficit with Japan was $59.9 billion, accounting for 35 per cent of the total.

As part of the MOSS (market-oriented, sector-selective) strategy, the United States conducted its bilateral trade talks with Japan on agricultural liberalization. Although other market access issues have come and gone during the 1980s, a constant source of trade friction between Washington and Tokyo has been Japan's residual quantitative restrictions on processed agricultural commodities and food products. That bone of contention has finally been eliminated as the Japanese government agreed to yield to the U.S. demand in 1988. In the space of just one month, Tokyo agreed to free imports of beef and oranges by April 1991, and to phase out over the next 20 months most of the agricultural quotas that the GATT had earlier ruled violated international trade rules.

The GATT Rulings of 1987

Before this breakthrough in Japan's agreement to end most remaining agricultural import quotas in 1988, there were adverse GATT rulings. External pressures on Japan to open its protected agricultural market were thus generated at two separate levels: bilateral and multilateral. Confronted with the external pressures from both bilateral and multilateral levels, the Japanese government has given in and decided to reverse its protectionist stance on agricultural imports.

The circumstance and decisions of the GATT ruling rendered in November 1987 against Japan were as follows: The Reagan Administration, after spending nearly two years on trade negotiations with Japan on certain food commodities targeted by the U.S. government, asked the GATT in July 1986 to form an impartial multinational panel to decide whether Japan's quotas on 12 categories of agricultural goods were consistent with Article 11 of the GATT rules, the provision that prohibits quantitative import restrictions with certain exceptions. After three sessions that spread over six months in 1987, the GATT group decided that Japan's quotas on 10 of the challenged categories violated Article 11 and that only two categories—dried peas and beans, and peanuts—were consistent with GATT rules. However, it was still critical of the relatively small volumes of imports Japan allowed. The 10 categories of agricultural goods for which Japan was ruled in violation of the GATT rules and which Japan subsequently took measures to remove import quotas on are: milk and cream products, processed cheese, starches and insulin, prepared beef products, sugars and syrups, fruit purees and paste, canned pineapple and fruit pulp, tomato juice and non-citrus fruit juices, ketchup and tomato sauce, and a miscellaneous group of processed foods (JEI Report No. 47B, December 18, 1987: 8-9).

The 1988 Yeutter-Sato Agreement

The July 20, 1988 announcement that the United States and Japan had come to terms on the arrangements eliminating Tokyo's GATT-inconsistent quotas on seven categories of processed foods signalled Japan's move toward a new agricultural trade policy of opening its market at home.

Japan agreed, in four stages starting October 1, 1988 and running through to April 1, 1990, to lift quotas on processed cheese, fruit purees and pastes, canned pineapple and fruit pulp, tomato juice and non-citrus fruit juices, ketchup and tomato sauce, sugars and sugar syrups, and a miscellaneous group of sugar-based food products. As part of the beef and citrus agreement, Japan will also liberalize its protections on prepared or preserved beef products, another quota category covered in the GATT ruling.

The main stumbling block from the start was how to handle the two GATT-incompatible quota categories—various milk and cream products and starches—which the Japanese government said it could not liberalize completely. In the end Tokyo agreed to remove the import controls on most dairy products of export interest to the United States. The Japanese agreed, for instance, to compensate American suppliers for continued restrictions on non-fat dried milk, evaporated milk and some other dairy products as well as on starches, by reducing the tariffs effective April 1, 1989 on 15 types of farm commodities and processed foods. On this list are breakfast cereals, popcorn, soup, mayonnaise and chewing gum (JEI Report No. 29B, July 29, 1988: 11).

A secondary problem was what to do about peanuts and dried peas and beans—the two quota categories GATT said Tokyo could maintain if import volumes were expanded. Here the two nations' trade negotiators settled on a 36.4 per cent increase over three years in the import ceiling for peanuts and the elimination of lentils and chickpeas from the quota on dried peas and beans.

With this agreement, the Japanese government has set the stage for virtually quota-free trade in agricultural commodities and food products by the mid-1990s. Aside from various dairy products, some dried legumes, starches and peanuts, the only items not targeted for liberalization at the present time are flour and certain food preparations made from wheat, rice, and barley plus edible seaweed. Even if rice is added to this list, Japan can justifiably claim that its agricultural import market will be just as open in a few years as that of the United States in the 1990s (JEI Report No. 29B, July 29, 1988: 11).

The High Yen and Currency Realignment

The currency realignment of the U.S. dollar and the Japanese yen since the Plaza Accord of September 1985 has been dramatic. In 1988 the dollar was worth only half as many yen as three years earlier. The drop in the yen price of imported feed grains of corn, sorghum, and soybeans by 50 per cent since July 1985, greatly reduces the cost of livestock production in Japan.

The earlier prediction that the high yen and currency realignment would deny Japanese access to the world marketplace and bring irreparable damage to the Japanese economy has proven to be false. Three years after the Japanese currency began a sustained rise, Japan's economy has shaken off the adverse effects of the high yen and is showing continuing vigour. The Japanese economy registered a 5.2 per cent annual growth rate in 1987, followed by another high of 4.9 per cent in 1988. The saving grace of the Japanese economy since 1985 has been increased domestic spending. Although the profitability of exporting has declined considerably, the growth of domestic demand volume and the increasing per-unit profitability of domestic sales have more than offset this decline (JEI, No. 33B, August 26, 1988: 1,2).

In short, Japan has successfully overcome the challenges of economic crisis brought about by the appreciation of the yen. Japan has reaped greater benefits, in fact, from the higher currency values through instituting effective and successful adjustment policies. Through increased domestic spending the market was expanded at home, while vigorously sustaining the export market share abroad. These measures stimulated the Japanese economy and continued to sustain its growth pattern. The timing was right and ripe, under the circumstance, to begin to open its closed and protected domestic markets including its agricultural market, without fearing greater disruptions and upheavals in the economy.

The Ruling Coalition and Party Politics

The Japanese response to externally-induced stimuli and crises was carefully managed by the leadership of the conservative Liberal Democratic Party. The ruling party elites, especially the followers of Prime Ministers Yasuhiro Nakasone (1982-1987) and Noboru Takeshita (1987-1989), have been instrumental in initiating and implementing a series of bold-reform measures leading to the "internationalization" of Japan. The new agricultural trade policy is a manifestation of this broad effort at initiating economic reforms and restructuring Japan. To move a tradition-bound Japanese society (such as that in agriculture) toward a more open and international environment, the LDP leadership attempted a new approach, style, and pattern of policy making.

Institutional Bases of Agricultural Policy Making

Japanese agricultural and farm policies are made in an interplay of various institutional actors and the representation of their interests. The iron triangle of agricultural policy making prevails in Japan; it consists of the bureaucracy, the ruling party and the agricultural interest groups (Talbot and Kihl, 1982). The bureaucracy in the Ministry of Agriculture, Forestry and Fisheries (MAFF) guides and controls the farmers through food and farm policy making and implementation. The members of parliament of the ruling LDP who represent the rural constituencies participate in the policy forum through the party offices in Tokyo. The National Federation of Agricultural Cooperatives (*Nokyo*) is the most powerful agricultural interest group in Japan; it represents and promotes the vested interest of the farm organizations in Japan. This overarching pattern of influence flow and interest articulation on food and farm policy matters in Japan makes the Japanese agricultural policy system resemble the model of polyarchy and pluralist democracy.

In the 1980s, however, a crack in the iron triangle structure opened up and a broader policy making structure has been superimposed on the agricultural policy areas. A new, more dominant, iron triangle structure to manage the broader macroeconomic policy issues has taken over to subordinate the agricultural policy making system. This new structure of Japan's economic policy making consists of the economic bureaucracy that includes the Ministry of Finance (MOF), the Ministry of International Trade and Industry (MITI), and the Economic Planning Agency (EPA), which played an important role in sustaining Japanese economic growth. The second set of institutional actors in the more powerful iron triangle are the LDP politicians who do not owe their election to the rural constituencies and tend to speak for the broader economic policy issues rather than agriculture. The third set of actors in the larger iron triangle is typically the non-farm economic organizations and interest groups, such as Japan's Federation of Economic Organizations (Keidanren), the federation of labour union organizations, the teachers' union, the consumer groups, and so on.

The Japanese system of polyarchy and pluralistic democracy, in short, has become more complex and diffused in the 1980s. In each field and policy area an iron triangle structure of policy making has arisen that consists of the bureaucracy in charge, the client interest groups, and some LDP politicians who are known as specialized politicians (called "zoku-giin" or tribe politicians). (I owe Professor Jiro Yamaguchi for pointing out the "zoku-giin" phenomenon in Japanese politics). These specialized politicians, having accumulated knowledge of and skill in policy making in a particular field through political activity within the LDP, penetrate into the particular administration for which they claim competency. These politicians have tended to increase their role and to disrupt the dominance of the bureaucracy. The result is a relative decrease in the prestige of the bureaucracy, while the policy process has become more pluralized rather than centralized. (Yamaguchi, 1987).

The Dynamics of Electoral and Party Politics

This marked increase in the role of LDP politicians in the policy making process is a result of the dynamics of Japan's electoral and party politics in the 1980s. Japan's agricultural trade policy reform—like public policy making in general—must reflect the political consensus of the ruling conservative party, especially the various factions within the Liberal Democratic Party (LDP). To be tenable the new policy must also receive broad public support which is periodically tested in the general elections that enable the party to stay in power.

During most of the post-World War II years the ruling party in Japan has been the Liberal Democratic Party. Established in 1955, by merging the Liberal Party and the Democratic Party, the LDP claims to have brought about an "economic miracle" for Japan. Ideologically conservative, the LDP is a conglomerate of various factions within the party. It believes in pragmatic politics.

The power base of the LDP in general elections has been its rural support (Hemmi, 1982). The traditional conservative constituencies in the rural areas have consistently elected the LDP candidates as members of parliament. However, with rapid urbanization and population migration, the traditional rural dominance has gradually given way to a greater urban and metropolitan dominance in Japan's electoral politics. Although the electoral district system still favours the rural over the urban areas, the LDP has begun to court the support of the urban voters who are the majority of the Japanese people.

Although Japan is a multi-party system, no opposition parties have been successful to date in winning a general election. The opposition parties having failed to unite themselves into an alternative political force, the conservative LDP has been the only viable political force to capture a majority of the seats in the lower house of the parliament. The general election held in 1986 gave the LDP a landslide victory, capturing 302 of the 510 member House of Representatives.

Consensus Politics and Party Factionalism

Given the fact that Japan is a one and one-half party system and that the conservative LDP has always been successful in forming the government, party factionalism within the LDP is the source of political power in Japan. The LDP has followed the pattern of what might be called "consensus politics"; that is, it endeavours to minimize open conflict and confrontation. Party factional leaders within the ruling LDP are expected to work out the political deals behind the scene so that party consensus will emerge on policy issues. Therefore, the final product or policy represents the consequences of compromise and bargain among the various party factions.

The Agriculture Minister named by the second Takeshita cabinet, following the reshuffle in late December 1988 as a consequence of the "Recruit" scandal, was Tsutomu Hata. As a member of the Takeshita faction and a confidant of the Prime Minister, he was widely known as a progressive politician, also an informal "zoku giin" in charge of agricultural policies. He was expected to carry out vigorously the policy reforms on agriculture, including the new agricultural trade policy reform.

A System of "Patterned Pluralism"?

Historically, Japan's highly efficient bureaucracy dominated the policy formulation process. However, the pattern of Japanese policy making changed in the 1980s with the enhanced role of the LDP Diet members who were not as dependent on the bureaucracy as in the past. The result is the relative decline of influence of the bureaucracy. This gradual shift of policy formulation from the bureaucrats to the politicians has been accompanied by changes within the LDP itself (Higashi and Lauter, 1987: 72).

Policy formulation within the LDP is the domain of the Policy Affairs Research Council which regularly deliberates the bureaucracy's policy proposals. Whereas in the past the different party factions attempted to hammer out an agreement behind closed doors, nowadays the council meetings are relatively open. The procedures tend to transcend factions in favour of exploring the merit of policy issues. The various functional divisions (bukai), organized along the policy issue areas (such as agriculture and forestry, and finance, among others), are the working units of the Council which combine specialized knowledge with political authority. Membership is open to all Diet members who are interested, although each may become a registered member of up to three divisions. The heads of divisions, as veteran Diet members, are experts in their fields and have long-standing associations with the various interest groups and the bureaucracy (Higashi and Lauter, 1987: 73).

The LDP politicians who play a critical role in the policy formulation process within the party are known as "zoku giin". These informal groups have evolved along the lines of the specialized divisions but sometimes transcend both factional and divisional lines. There is no limit to the number of "zokus" Diet members may join. Thus, the "zoku" unite LDP Diet members of varying backgrounds and seniority under the banner of certain special interests. Leadership is in the hands of influential senior politicians who wield a great deal of political power. Membership, however, continually changes according to the issues at hand and over time, and may include active cabinet members as well as first-term representatives who get an equal opportunity to present views at the "zoku" meetings (Higashi and Lauter, 1987: 73-74).

A new pattern of polyarchy and pluralism, therefore, is emerging in the Japanese political system. The traditional views and models of Japan's political economy—those emphasizing the overwhelming power of the bureaucracy, or the harmonious cooperation of a close-knit power elite comprising the bureaucracy, top LDP leaders, and big business executives working together to dominate policy making to their own advantage—have become too simplistic and inadequate to describe the situation that has emerged in Japan in the recent years (Okimoto et al., 1988: 208). In its place is a uniquely Japanese system which Muramatsu Michio and Ellis Krauss (1987: 516-554) have called "patterned pluralism."

In this type of policy making system, "access is open because the dominant party's social interest coalition is wide, and because the government bureaucracy is inclusionary and also has strong ties to interest groups." Moreover, "influence in the system has relatively wide distribution because the ruling coalition is flexible and must remain so to perpetuate its dominance in the face of social change and challenge from an opposition that has not been completely delegitimized." (Okimoto et al., 1988: 209; Also, see Muramatsu and Krauss, 1987).

In the classical pluralism of Japan, policy making was merely the outcome of open-ended, competitive lobbying by interest groups on a relatively weak government. Under the new system, however, "government is strong, interest groups sometimes have cooperative relations with the government and with each other, and lobbying is not open-ended because interest groups usually are almost constantly allied with the same parties and bureaucratic agencies." (Muramatsu and Krauss, 1987: 537) In the "patterned pluralism" of modern Japan, although the government and its bureaucracy remain strong, the boundaries between the state and society have become blurred. The reasons for this closer integration between state and society in modern Japan, according to Muramatsu and Krauss (1987: 537-538), are three: first, the government is penetrated by interest groups and political parties; second; one party (i.e., the LDP) is perpetually or nearly perpetually in power; and third, an ideological cleavage prevails between the dominant party with its social allies and the opposition parties with their own interest group allies over important value issues. The system of policy making in modern Japan, in short, continues to exhibit basic characteristics of pluralism and polyarchy, but the pattern of interest articulation and influence flow seem to be more complex, diffused and mutually penetrated.

Macroeconomic Policy Reform and Agriculture's Place

The Politics of Agenda Setting

Japan's agricultural trade policy reform in 1988 is part and parcel of the overall comprehensive economic reform package and policy agenda which the ruling conservative party has been promoting throughout the 1980s. If external pressure provided the stimulus, the domestic political processes and agricultural politics seemed to have acted as the necessary and sufficient conditions for Japan's decision to reform agricultural trade policy at this particular point in time.

The timing and strategy in the implementation of Japan's economic reform policies are influenced by a host of factors. These include: (1) the relative decline of Japan's economic growth rates in the 1980s, over that in the 1960-1970s, (2) an attempt to revitalize Japan's economy for continuous growth in the era of high yen value, (3) a desire to pacify the foreign and domestic criticism of the high price of protectionism to exporters, and

(4) broad public support for and reaction to the government's proposed reform measures.

Japan's agricultural trade policy is a subset of the larger economic policy of promoting foreign trade and stimulating economic growth. The Japanese government appears to have decided that a gradual reform in agricultural policy and agricultural structure were inevitable. One of the crowning victories and accomplishments of the government of Takeshita in 1988 was the tax reform bill passed by Japan's National Diet on December 24, 1988. As the most sweeping tax overhaul in 40 years, the new law cuts income taxes but imposes a 3 per cent sales tax. The tax bill was not a popular program, especially among the Japanese farmers, nor was the proposed measure of agricultural reform.

The decision on agricultural policy reform, like the tax bill, was not a sudden, last minute, adjustment and decision to carry out policy reforms. Instead, the genesis of a new agricultural trade policy dates back to the Yasuhiro Nakasone government, in office from 1982 to 1987. The new policy initiative on agricultural policy was motivated as much by the domestic political forces and processes as by the external pressures in the world economy. The external pressure on Japan came especially from the United States, which together with Australia, acted as the principal agricultural exporting countries pressing Japan to open further its market.

The administrative style and approach of Prime Minister Nakasone, in initiating and carrying out the domestic reform policies, were unique. The device of administrative councils, to be noted below, has proven effective in defining the policy agenda for economic reform. Once the reports of various research committees staffed by Nakasone's own "brain trusts" were released, Nakasone attempted to mobilize public support behind his proposed actions to implement these recommendations.

Given the entrenched "conservative" interests, and fierce resistance to change associated with Japan's National Federation of Agricultural Cooperatives (*Nokyo*), Nakasone went outside the regular channels of policy making in Japan. The iron triangle of Japan's agricultural policy making system was bypassed and preempted by the Prime Minister's Office through the mechanism of an advisory commission device.

Transformation of the Agricultural Policy Process

(This section is contributed by Professor Jiro Yamaguchi, Fulbright Professor from Japan at Cornell University.)

In the system of "patterned pluralism" in Japan today, leadership by tribe politicians has been established. Most of them are more independent from the *Nokyo*, and have a broader policy point of view. They also realize that some kind of structural reform is inevitable in order to save Japanese agriculture from mounting external pressure. These politicians share a basic understanding about the international situation and Japan's responsibilities in the world political economy with the top leaders in charge of general coordination, like the Prime Minister, who chairs the Policy Research Council of the LDP.

Therefore, the Nokyo became less effective in agricultural policy making and will likely continue to be less persuasive in the near future. The Livestock Industry Promotion Corporation (LIPC), a semi-government agency that built its power base by controlling and regulating the beef industry in Japan, will get out of the business of licensing and distributing beef imports in favour of the market mechanism of supply and demand. The politicians and bureaucrats of the MAFF will try to persuade the Nokyo, the powerful national federation of agricultural cooperatives, to accept and cooperate with some rational reform, and then the Nokyo will be expected to persuade the farmers in the local areas to accept and cooperate with the agricultural reform efforts. The initiative of reform in Japanese agriculture will be taken by the Prime Minister in coordination with the top leaders of the LDP, the bureaucrats of the Ministry of Finance and the Ministry of Foreign Affairs, and the specialist politicians in agriculture. Agriculture Minister Tsutomu Hata will surely try to carry out drastic measures of policy reform, such as opening the domestic market, and reducing farm subsidies, selective support of farmers, and protection for the weak and part-time farmers.

Japan's Position on Agriculture in the Uruguay Round

The details of the process by which Japan devised its position on agriculture with regard to the Uruguay Round MTN are not clear. Nevertheless, it seems clear that the Prime Minister's Office has had a leading role in evolving a consensus within the LDP and the economic bureaucracies.

Japan has taken the position of siding neither with the United States nor the EC on the Uruguay Round on agriculture. By taking an independent position, the Japanese are closer to the proposals of the Cairns Group which advocates a "compromised" plan.

The Japanese proposal, submitted in December 1987, recommended reducing export subsidies and improving rules on market access, while noting the need to take into account the special characteristics of agriculture within each country. The Japanese proposal stressed the concerns of importing nations, including the need for food security. Each country, according to Japan, should be allowed to develop its own agricultural sector. This posture, containing nothing unexpected, is characteristic of Japan playing a "reactive" and "defensive" role in trade negotiations (GAO, 1988, p. 28).

The fact that Japan came forward with a proposal, reversing its traditional "low profile" and "reactive" posture, is itself significant. By making its own position known, Japan has taken a more positive and activist stand on the multilateral trade negotiation process. Furthermore, it agreed to place on the agenda the agricultural subsidy issue, including the one on rice, during the 1986 Ministerial meetings in Punta del Este. The Japanese position in the Uruguay Round on agriculture is to retain flexibility in the sense of agreeing not only to put its agricultural programs on the negotiating table in Geneva but also to consider agricultural reforms as well.

Strategic Plans for Economic and Agricultural Reforms

The consequences of Japan's transformation as an economic superpower generated internal pressures for Japan to modernize and reform some of its inefficient domestic structures. This includes Japan's agricultural system. Japan's accumulated current account surplus occurred in part because of its "distorted" trade policy and practices of promoting export expansion without a corresponding market opening at home. The consequences of this distortion in Japanese trade policies has been detrimental to the liberal international trading system as well as to the Japanese government paying huge subsidies to support an inefficient agricultural production system.

The specific strategic plans for internal policy reform adopted by the Japanese government in the 1980s include: initiating plans for administrative reforms in the form of the Maekawa Commission Report, and formulating plans for structural adjustment in agriculture.

Administrative Reforms

In the 1980s the Nakasone government chose to carry out "administrative reforms" as one of the policy objectives. Concerning macroeconomic policy reform, Nakasone decided to go outside the government agencies and appoint an advisory commission with specific guidelines and explicit terms of reference on policy recommendations.

The Research Council on Economic Structural Adjustment (Keizai Kozo Chosei Kenkyukai), appointed in 1982, consisted of business leaders, economists, and ex-bureaucrats, and was chaired by Haruo Maekawa, the former governor of the Bank of Japan. The mandate of the commission was "to conduct a study on policy measures from medium and long-term perspectives concerning Japan's economic and social structure and management in response to the recent environmental changes surrounding Japan in the international economic situation." Nakasone expected this group to exercise a leadership role in defining and setting the agenda for domestic reform policies to be carried out during his term in office.

The commission published the Maekawa Report on April 7, 1986. This was timed to coincide with the scheduled Tokyo economic summit of the seven industrialized democracies in May 1986, so as to maximize the opportunity to soften the mounting international criticism of Japan over the failure to curb an escalating trade and current account surplus.

The Maekawa Commission Report

The Maekawa Commission Report stated that Japan's large current account surplus, unprecedently large at 3.6 per cent of Japan's GNP in 1985, was basically linked to Japan's "export-oriented economic structure". It stated that there was "an urgent need for Japan to implement drastic policies of structural adjustment and to seek to transform the Japanese economic structure into one oriented toward international coordination."

The report made six recommendations: (1) expansion of domestic demand through promoting housing policies and urban development, stimulating private consumption and promoting social infrastructure investment by local government in Japan; (2) transformation of the economy into an "international harmonious industrial structure" through positive industrial adjustment, promoting direct investment, and promoting agricultural policies "befitting an age of internationalization"; (3) further improvement of market access and encouragement of imports of manufactured goods from abroad; (4) stabilization of exchange rates and liberalization and internationalization of the financial and capital markets; (5) promotion of international cooperation and Japan's contribution to the world economy commensurate with its international status, such as through active promotion of the GATT New Round; and (6) improvement in financial and monetary policy management, such as revising the tax system.

As for the measures for promoting an agricultural policy "befitting to an age of internationalization", the report pointed out that "structural improvement" is needed in Japanese agriculture and that priorities should be focused on "fostering core farmers for the future" and rationalizing price policies that make greater use of market mechanisms. The report claimed that "with the exception of basic farm products" (presumably rice among others), "efforts should be made toward a steady increase in imports of products (including agricultural processed products) whose domestic prices and the international market prices differ markedly." These price disparities, the report continues, "should be reduced while agriculture should be rationalized and made more efficient." With regard to products subject to quantitative import restrictions, "efforts should be made to improve market access under the future perspective for making the Japanese market more open while taking account of developments in the relevant consultations and negotiations including the GATT New Round."

"Directive Reform": Reactions at Home and Abroad

The immediate reactions to the release of the Maekawa Commission Report were mixed. Many Japanese opinions, especially those of liberal and progressive big business, were favourable and supportive of the bold vision of the proposed reform measures. Others were more critical of Nakasone's "high-handed" approach to reform politics that bypassed the regular bureaucratic channels and party deliberation on proposed policy changes. The consensus was that while the "internationalization" of Japan was an admirable and noble national goal for the country, the short-term and medium adjustment processes would be painful, slow and difficult.

The foreign reactions were also mixed. The immediate U.S. response was generally supportive of reform efforts, but skeptical on the speed with which such a policy recommendation would be carried out. The reaction of the EC countries was also "guarded" and more "skeptical" than that of the United States. In an attempt to confront foreign skepticism head on, and also to silence domestic criticism through diplomacy, Prime Minister Nakasone embarked upon a hastily-arranged trip to the United States to meet President Reagan, just one month prior to the scheduled Tokyo economic summitry. His mission was to impress upon the U.S. President and congressional leaders the seriousness with which he intended to carry out the economic reform measures, recommended by the Maekawa Commission Report.

Nakasone also instructed the Maekawa Commission to continue its research and deliberations regarding specific measures for implementing recommended reforms. The result was the release on April 7, 1987, of a follow-up report. It was more direct and firm in its call that the Japanese government take immediate actions to "implement specific policies" or the promotion of economic restructuring. It stated that Japan's "large current account surpluses . . . cannot be allowed to continue, either for the Japanese economy itself or for the harmonious development of the world economy" and that "international policy coordination is also needed" because "Japanese policy responses alone cannot rectify this imbalance." The report said that "as a country largely dependent upon free trade, a country accounting for one-tenth of the world GNP, and the world's largest creditor nation, Japan must take the initiative in rolling back protectionism and in defending the free trade system by seeking to achieve an internationally harmonious external balance and to make a positive contribution to the international community."

The leadership of Prime Minister Nakasone thus proved to be critical in enabling Japan to make a historical move in launching new economic reform policies. His decision to bypass the regularized channels of policy making, and utilize an advisory commission outside the government bureaucracy, while continuing his efforts to build upon a broad intra-party consensus and support basis among the general public, proved successful. In his steadfast commitment to and pursuance of the goal of internationalization of Japan, Nakasone personified the desire of many Japanese to overcome the psychology of the *Shimaguni Konjo* (insular, small-country mentality and orientation) and to become a great economic power, as a nation of "the rising sun" in the East.

Implementation Strategies

One of the new measures proposed in the 1987 Maekawa Commission Report was for "internationally harmonious" industrial restructuring by promoting direct overseas investment, enhancing competitive conditions at home, expanding imports and improving market access. With respect to agriculture, it suggested: (1) efforts to promote agricultural policy that give full consideration not only to producers but also to consumers and the food industry; (2) an effort to reduce the differential between Japanese and overseas prices and to achieve stable foodstuff supplies at popularly acceptable prices by improving productivity and promoting imports as appropriate; (3) efforts to expand the operational scale and improve productivity for greater value-added production to establish agriculture as a viable industry; (4) responsiveness to the diversification of consumer requirements, efforts to improve government controls so as to expand trading in independent-market rice and to introduce competitive principles in all stages from collecting to marketing; and (5) while seeking to make Japanese production more rational and more efficient, an effort to hold border adjustment measures to a minimum for non-rice agricultural products.

As for immediate action for restructuring, the report recommended that the Japanese government take two concrete measures on agriculture within the next few years: (1) reducing the differential between Japanese and overseas foodstuff prices by raising productivity and promoting imports; and (2) improving the existing food supply and demand system under government control by introducing competitive principles in all stages from collection to marketing.

Calling for reforms and a restructuring of Japan's economy, including changes in Japan's lifestyle and the country's global role, is far from actually carrying out the policy reform. Although the concepts contained in the Maekawa reports are admirable, the concrete deeds and actions will need to be demonstrated. The report's impact is yet to be measured because most of the difficult changes, including the ones on agriculture, still remain to be carried out.

Structural Adjustment in Agriculture

Although the Basic Agricultural Law of 1961 continues to be the basis of Japanese agricultural policies, the actual implementation of its agricultural policy programs tends to reflect the changing agricultural environment. One of the Basic Law's objectives, the narrowing of the urban-rural income differential, has been amply achieved. With the increase in non-farm job opportunities for farming families, the income disparity between farming and non-farming households in Japan has been eliminated and even reversed in the 1980s. This is also true with respect to other provisions of the Basic Law, namely, attaining food self-sufficiency and food security. With an increasingly abundant food supply on the world market since around 1980, the emphasis of Japanese government programs quietly shifted from increasing production to increasing productivity (Hemmi, 1987: 34).

The Agricultural Policy Council, an advisory body to the Prime Minister, published a series of reports which attempted to redirect Japan's agricultural policy. The 1986 report, entitled "Basic Direction on Agricultural Policies Toward the 21st Century", is especially important. It recommends radical adjustments in the agricultural production structure, especially for rice, and the reduction of production costs for rice and other crops by about one-half in the next 10 years. Other reports also recommend an extensive use of market mechanisms to balance demand and supply, and for the allocation of productive factors. Specific changes in the socioeconomic situation surrounding Japanese agriculture and agricultural policies are listed as the justification for making these recommendations. Five such changes mentioned in the report are: stable economic growth, the aging of the Japanese population, internationalization of the economy, overpopulation in large cities and depopulation in rural areas, and technological developments. The requirement of restructuring the Japanese economy into a more internationally harmonious one will assign, according to the report, three "multilateral roles" for the Japanese agriculture and rural communities: (a) providing a stable supply of food, (b) maintaining a vital rural society, and (c) preserving land and the natural environment (Hemmi, 1987: 32).

Japan's future agricultural policies will also need to address four specific needs: (1) accelerated improvements in the agricultural structure for land-extensive farming, (2) a secure domestic supply capability for food by improving productivity, (3) maintenance of the current supply system for such commodities as rice by further improving productivity, and (4) ensured income opportunities and the vitality of rural society by promoting diversified investments. The report also recognizes diverse viewpoints and philosophies on agriculture shared by various groups as reflected in different policy perspectives, such as industrial, social, land use, consumer and international trade policies.

The basic directions of Japanese agricultural policies in the 21st century, according to the report, are these: an establishment of high-productivity paddy-field farming, such as in rice, in line with demand trends through promotion of structural policies, such as expanding the scale of farm management and improving the management of the food control system; and establishment of agriculture as a self-dependent industry, by taking measures to raise productivity; the development of improved agricultural price policies; and progress in internationalized policies on agricultural trade. Other agenda for the Japanese agricultural policies in the 21st century include: developing new technologies, promoting food industry policies, and assuring a healthy and plentiful diet for the Japanese, and promoting consumer-oriented policies. The report also discusses other policy matters pertaining to issues on the aging of society in Japan, on revitalizing rural communities and contributing to local economies, and on promoting measures for international agricultural cooperation.

Prospects for the 1990s

Because of maintaining protectionist policies on agriculture, while at the same time promoting trade liberalization on manufactured goods abroad, Japan has been subject to severe criticism by the world trading nations, especially by the United States. The LDP leadership now realizes that its inconsistent trade policy stance between the industrial and agricultural sectors is no longer tenable politically and that internationalization of the Japanese economy, in harmony with the world economy, is the only viable strategy for the survival of Japan in the 1990s. The latest reform efforts in Japanese agricultural trade policy reflect this altered perspective and the determination of the LDP leadership to bring about broader socio-economic and structural changes in Japan, including changes in agriculture.

Although the Japanese agricultural policies of protectionism reflect the historical and structural conditions in Japan in the past years, the conditions today are vastly different. The Japanese economy has matured and emerged as a world-class giant (Lincoln, 1988). Some of the policy objectives of the 1961 Agricultural Basic Law, for instance, have been attained while others will need to be modified and abandoned (Hayami, 1988). Given the structural limitations of Japanese agriculture, the policy goal of food self-sufficiency is not realistically attainable. The limited resource endowment and factors of production, such as scarce arable land and the small size of the farming units, have made the goal of food self-sufficiency, especially in rice, too costly and inefficient in the economic sense. Food security for Japan is also no longer a serious matter given the super-abundance of food stocks in the world market. Other policy goals, such as bridging the urban-rural income gap, have also been amply and successfully attained.

Because of the vested interests built around the lucrative agricultural support and subsidy programs of the Japanese government in the past years, the farmers and their organizations (*Nokyo and Zenchu*) are strongly resisting the pressures for agricultural reform and change in the protectionist trade policies. However, the LDP politicians, in alliance with trade associations and other interest groups, such as the consumer groups, have decided to fight back and contest the powerful agricultural interests at home. Although the outcome of this historical confrontation between the more "internationalist" elites represented by the reformers in the LDP leadership and the traditional rurally-based and conservative groups is unclear in the late 1980s, the initial battle seems to have been won by the former. The landslide LDP victory in the 1986 double elections was clearly an approval by the Japanese voters of the policy of the Nakasone government in promoting "internationalization" of the Japanese economy.

Now that Japan has succeeded in financial restructuring, through the passage of the tax bill in December 1988, the next "reform" policy agenda will be to move ahead with agricultural restructuring, including the revision in the rice price-support policy. There has already been a move to hold the line and resist pressures from the *Nokyo* to raise the government purchase price for rice. The Rice Price Deliberation (Policy) Council already refused to increase the government purchase price for rice in 1986, thereby reversing the historical trend of continuously raising the rice purchasing price at the annual meetings.

It is obvious that the Prime Minister and other leaders of the LDP are prepared to take drastic measures to internationalize Japanese agriculture. They also seek the possibility of political realignment by changing the priority between the local farmers and the urban salaried workers. The recently accomplished tax overhaul (although it is doubtful that the 1988 tax bill deserves an expression of "overhaul") will bring some benefits to the urban middle class at the expense of the poor and farmers. Distributive and redistributive consequences will follow from the latest passage of the tax bill. An increase in public investment in urban infrastructure and the lowering of food prices, for instance, will be other measures that redistribute the resources in Japan. These policies can now be launched at the sacrifice of the heavily subsidized agricultural sector in Japan.

Political realignment of the farmers who are opposed to the LDP policy on agricultural reform is possible. However, the likelihood of inducing the farmers to support the opposition parties is not realistic at this time. If the disadvantaged farmers should leave the conservative camp, they would likely encounter an even more drastic curtailment of farm support policies. The only rational choice for the farmers is to stay with the support base of the LDP, and to get as many concessions from the government as possible in the future. The LDP leaders' political skills in consensus-building will be fully used in persuading the Japanese farmers to accept agricultural policy reform as "inevitable". Some part of the agricultural industry, perhaps the least efficient parts like wheat and sugar beets, will suffer critical damage. The government will then concentrate its protection and investment only on some basic commodities, like rice.

In implementing the agricultural reform policies, the Takeshita government will be sensitive to developments in the external environment, such as the basic decisions of the current Uruguay Round of MTN. Satisfactory resolution of conflict issues during the Uruguay Round may help the case of the Japanese government in continuously pushing forward with its own policy agenda for domestic agricultural reform.

Whether the LDP leadership will succeed in its current reform efforts in agriculture, enabling Japan to make a historical transition from agricultural protectionism to a more liberalized and open agricultural trade regime at home, remains to be seen. The internationally-oriented "reformists" have successfully used the theme of "external pressures" to their political advantage, to press forward with their agenda for macroeconomic structural reform in Japan. They will certainly continue to exploit the external forces of the political economy of Japan in the days ahead.

The political crisis arising from the Recruit-Cosmos scandal which led to the resignation of Prime Minister Takeshita, has subsequently resulted in the realignment of Japanese party politics and threatened LDP domination. In the new, altered political situation following the 1989 General Election, in which the LDP continues to have a majority in the lower house but has lost its control of the upper house, it remains unclear whether the reformist campaigns and struggles for internationalization of the Japanese economy, including agricultural trade policy, are a lasting victory or only a temporary short-lived success in the long embattled domestic political environment in Japan.

Notes

1. There are some safeguard provisions in the agreement, however, which Japan demanded and the United States agreed to on a quid-pro-quo basis. The agreement stipulates, for instance, that on April 1, 1991, the beef quota will be replaced by a 70 per cent tariff which, in turn, will be reduced to 60 per cent in 1992, and 50 per cent in 1993. Additional "emergency" measures will also allow for an additional 20 per cent tariff in any year of the post-transition period of 1991-1993 in which beef exports will increase by 20 per cent over the previous year. For this reason Japan's 1988 beef and citrus agreement with the United States was not a complete and unequivocal reversal of its hardline stance on agricultural trade negotiation.

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8

Australia: Domestic Political Management and International Trade Reform

*Andrew Fenton Cooper**

Australia may be considered an anomalous case in relationship to agricultural policy. In a similar fashion to many other countries, Australia has had to cope with a severe rural crisis in the 1980s. Yet unlike many of these other countries, Australia has refrained from attempting to come to terms with the crisis by either throwing money at it, or by resorting to the utilization of intensified illiberal trade practices. Rather, Australia responded to the crisis in a more positive and innovative fashion. The Australian Labor Party (ALP) government of Bob Hawke pursued a strategy of domestic reform in regard to agricultural policy, a strategy which was then explicitly externalized, most notably through the establishment of a coalition of "fair traders" in the form of the Cairns Group. Australia therefore appears to stand apart from the major agricultural trading countries (and particularly the United States and the European Community), because it has played an important role in the export not of many of the problems but of much of the solution with respect to international trade tensions.

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* Financial support for this research was provided by the Social Sciences and Humanities Research Council of Canada as part of a wider study entitled: "Adjusting to Changes in the Global Economy: A Comparative Study of Canadian and Australian Agricultural Trade Policy." I would like to thank Richard Higgott and other scholars at the Australian National University, as well as a number of officials in the Department of Foreign Affairs and Trade and the Bureau of Agricultural Economics for sharing their insights on Australian issues with me.

To explain the Australian case in comparative perspective, this paper will examine, first of all, the nature and extent of the economic crisis in Australia during the 1980s, with special attention being given to the sources of rural frustration and anger behind the so-called "farmers' revolt" of the mid-1980s. Then, the forms by which the Labor Party government attempted to manage the crisis will be highlighted, the focus being on the instruments of corporatism, rationalization and deregulation, bureaucratic re-organization, and export enhancement. The third section of the paper will look in more detail at how the Hawke government, facing determined domestic political opposition to many of the elements contained in this reform agenda, attempted to re-focus attention away from the domestic process (and problems) of adjustment to the international arena. Indeed, a central argument of this piece of work will be that an essential technique of managing the politics of reform by the Australian government was to shift the focus of discontent onto the global stage.

The Australian Dilemma

The 1980s have proved to be a traumatic time for Australia. Far from confirming its status as "the Lucky Country," Australia, according to some commentators, was in risk of becoming a relatively poor Asian Pacific country.[1] Heavily dependent on the export of primary produce, the trade position of Australia became increasingly problematic in the early part of the decade, a situation exacerbated by poor labour relations, a work ethic (or lack of it) that has been the subject of much debate, what has been termed a "cargo cult" with respect to the export of primary commodities, and a high public sector borrowing requirement. The sober reality of the decline of the Australian position in global terms may be judged by the fact that between 1978 and 1983 Australia went from being the 12th ranked country (excluding Communist countries) in terms of exports to the 23rd.[2] Whereas world trade volume has been estimated to have increased 5.6 per cent a year during the years 1970 to 1980, Australia's export volume increased by only 3.6 per cent a year.[3]

The agricultural sector in Australia was particularly hard hit in the early 1980s. The rural terms of trade, that is to say the ratio of costs to prices received, worsened considerably. Not only did production costs rise, but Australian producers suffered from the dramatic collapse in the prices of a variety of world commodities. The problems relating to costs were made much worse by the severe drought of 1982-83 in the eastern and southern regions of the country. The major reason for the deterioration in prices reflected world conditions. The demand for Australian agricultural goods declined, generally, with the international recession. More specifically, many of the countries which seemed in the 1970s to be the most attractive customers for Australian agricultural goods proved less promising in the 1980s due to the decline in oil prices, serious debt repayment problems, political turmoil, or because of significant internal advances towards agricultural self-sufficiency.

The supply question was even more problematic. The scarcity crisis of the early 1970s was transformed into a surplus crisis a decade later. The continued rise in the international supply of grain, dairy products, beef, and sugar, combined with a greater number of exporters, led to an intense form of beggar-thy-neighbour competition. Most dramatically, Australia found its position vis-à-vis the EC completely transformed. In the 1970s the most contentious set of issues between the European Community and Australia related to the access of Australian agricultural goods into the EC market. By the 1980s the positions had reversed as the EC moved to become a net exporter of grain, the supplier of three-fifths of the international market in butter and dried milk, and the second largest exporter of beef—and hence a direct competitor to Australia in international markets.

More seriously still, Australia found itself increasingly caught in the cross-fire effect of the export subsidy programs of both the EC and the U.S. In the period subsequent to the 1982 GATT Ministerial, Australia had thought that the American tactic of "fighting fire with fire" would serve the interests of their producers in the long run. One prominent trade diplomat (Sir Colin Teese) suggested as late as July 1985 that: "Our best hope is that a few illustrations of this (tactic) in action will bring the community to the negotiating table."[4] As the trade dispute continued, however, Australia found that many of the most lucrative markets (in the case of wheat, for example, Iraq and North Yemen) were jeopardized.

The Hawke Labor Party government, furthermore, had political as well as economic reasons for responding in an active fashion to rural problems. By 1985 farmer militancy had become a political force of some consequence in Australia, the mass rallies and demonstrations of "the bush" (with the participation of up to 40,000 protestors) receiving considerable media attention. At one level, this rural agitation was merely embarrassing to a consensus-oriented government. At another level, though, the farmers' actions were perceived as being potentially highly damaging to the government in electoral terms. Although the ALP had traditionally received a minority of the votes cast in rural Australia, the National (formerly Country) Party remaining dominant among that constituency, Labor could not afford to ignore this concern completely. The number of marginal seats located in the countryside was too great. As the Minister of Primary Industry, John Kerin, put it bluntly in a speech in November 1985 to the New South Wales ALP: "Eighteen of our federal seats have a significant rural component. Nine of our most marginal seats are included on this list. We cannot hold government without these seats."[5]

Kerin, during the period since Labor had come to power in 1983, had tried hard to redress the poor image of the ALP in the countryside. This task, nonetheless, was not easily accomplished. As Kerin himself commented: "There is always a general feeling of being forgotten (in the country) and it's more easily whipped up when there are Labor governments."[6] One obstacle was the lingering memories of the Whitlam government from the early 1970s.[7] In contrast to the "progressive" image of the Whitlam period in urban Australia, rural Australia continued to complain about the (less than benign) neglect it had experienced under that earlier Labor government. One specific grievance was that Whitlam had appointed a non-farmer (Senator Wriedt) to the post of Minister of Agriculture. A second was that Whitlam had rebuffed protests that his government was not doing enough for Australian farmers by saying that the agricultural sector had "never had it so good".

Another, even more important obstacle in the context of the 1980s, was the refusal of the ALP to address the rural crisis on the farmers' own terms. What the farmers wanted was some sort of immediate quick-fix (either in the form of specific subsidies or a general relief package) to reduce their cost burdens, and to cushion them against the impact of the cut-throat trading practices of their international competitors. An approach of this type, however, was from the government's perspective extremely difficult to contemplate. Given the overall economic situation in Australia (by 1985, the Australian current account balance was estimated to be $US 8,684 million),[8] a strong argument could be made that Australia lacked "the financial power to support domestic farm incomes," or the "financial muscle to match the U.S. or EC in subsidising farm exports in a trade war."[9]

What the Labor Party government offered, then, was a more ambitious, comprehensive, and longer-term approach to the rural crisis; an approach which subordinated the special and distinctive interests of the farming community to getting the national economy as a whole "right." The belief of the Hawke government was that Australia, in a similar fashion to other medium-sized or small countries, had to cope with their vulnerability in the international political economy not by resisting but by responding to change, adopting new forms of political and economic strategies and structures.[10] As such, it was inevitable that the "national" agenda of the ALP clashed with the "sectional" interest of the activists in the "rural revolt".[11]

The Australian Labor Party's Agenda for Reform

The first plank of the ALP agenda for reconciliation, recovery, and reconstruction was the establishment of a new form of corporatist political structures. Following the model found in a number of smaller European states (for example, Sweden and Austria), considerable effort was made by the Hawke government to try to integrate functional interest groups more effectively into the decision-making process. As in the European case, this response to "dependence on the world economy" was predicated on the hope that a corporatist solution would reduce "unnecessary friction and stalemate" and thus facilitate "the formulation and implementation of policy."[12]

The crux of the Australian approach to corporatism was the Economic Summit, held in Canberra in April 1983, out of which emerged the creation of the Economic Planning Advisory Council (EPAC) and a number of other bodies including the Conciliation and Arbitration Commission, and the establishment of the Prices and Incomes Accord. This activity reflects a number of characteristics of the Hawke government—the high priority it placed on consensus, a willingness to adjust quickly to new economic conditions, and the capability of providing firm policy direction. The question that must be addressed relates to how the farm lobby fitted into this corporatist strategy. In one respect, at least, there could be some sense of optimism on the part of government that this lobby would embrace this initiative and be drawn into a new pattern of negotiation and consultation. For, notwithstanding a tradition of division, fragmentation, and rivalry in the farming community along commodity lines, a process of consolidation had taken place among the farmers' groups in the late 1970s,[13] with the National Farmers' Federation being formed through successive amalgamations of the NSW United Farmers and the Woolgrowers Association, and the Graziers Association, and the Livestock and Grain Producers' Association and other farmer groups (the LGPA constituting the largest member of the NFF). With a broad membership, and an increasingly detached position vis-à-vis the National (Country) Party, the NFF represented in terms of the ALP's corporatist strategy a peak organization that the government could potentially deal with in regard to agricultural policy.

On this point, there could be discerned some initial enthusiasm within the NFF for the government's corporatist strategy.

Symbolically, it could be argued that an approach along these lines would help ease the sense of frustration of farmers that they were being neglected by government. More substantially, this type of political structure held some attraction in the sense that it seemed to offer to the NFF leadership some degree of privileged position in terms of access to, and approval of, economic policy. The problem was that the corporatist strategy did not deliver what it had promised. For one thing, the NFF criticized the government's approach for not giving farmers' representatives the same status as the representatives of the trade unionists (through the ACTU affiliated unions). Not until April 1986 with the publication of a Rural White Paper, for example, was a proposal made to incorporate farmers more formally into the decision-making process through the Rural and Allied Industries Council.[14] Nor did the Accord appear to be working very effectively in practice. The indexation principle established in the Accord was completely at odds with the "capacity to pay" principle favoured by the NFF. Moreover, the Farmers' Federation quickly became disillusioned with the idea that labour relations would be appreciably improved through the working of the Accord. Indeed much of the NFF's agitation was directed at labour "militancy"—a phenomenon seen most clearly in the Mudginberri episode—where the Federation directly confronted the Australasian Meat Industry Employees Union in a bitter dispute. It was not surprising, therefore, that by mid-1985 a fierce backlash had developed against not only the Accord but the other manifestations of a corporatist approach.[15]

The second plank of the Hawke government's reform agenda was an economic strategy centred on liberalization, rationalization and deregulation. This approach marked a sharp break with the past in terms of Australian policy-orientation. One of the few areas of broad agreement between the ALP and the National (Country) Party had been on the necessity of a high degree of statist involvement in the economy. The idea of "protectionism all round," institutionalized by Sir John McEwen in the 1950s and 1960s when he was leader of the Country Party, Deputy Prime Minister and Minister of Trade and Industry, remained dominant until the 1980s. Challenges to this orthodoxy, as for instance when Whitlam tried to cut tariffs across the board by 25 per cent, met considerable opposition internally within the Labor Party as well as from the ACTU and employer groups.

The shift in view within the Labor Party reflected, in part, the influence of the bureaucracy on the politicians, particularly that of the Industries Assistance Commission (IAC) which had long pushed for greater efficiency in the economy. It also reflected, though, the rise within the ALP itself of a new cohort of economic pragmatists. Prominent among this new breed inside the Cabinet in the mid-1980s were Paul Keating at the Treasury, Kerin at

Primary Industry, John Dawkins at the Trade portfolio and Sen. John Button, at Industry, Commerce and Technology. Although there were some differences between these politicians about the pace of change required, this grouping of Cabinet Ministers all were convinced that a major restructuring of the economy was required if Australia was to remain competitive internationally.

The NFF was highly supportive of many aspects of this efficiency drive. Ideologically, many of the leaders of the Farmers' Federation were attracted to the views of the "new right" (the NFF's industrial director, for example, was a central member of the H.R. Nicholls Society), which had long been demanding reduced public spending, wide-spread deregulation, and more flexibility in the economy. From a more practical standpoint, the NFF and the farming community as a whole were enthusiastic about economic liberalization because of the impact a generalized move in this direction would have on their industry. On the one hand, rationalization and deregulation held out the possibility of cheaper costs of production for farming with respect to inputs (fertilizers and cultivating equipment, for example). On the other hand, the removal of tariffs and other forms of import restrictions in Australia facilitated the increase of two-way trade with a number of other countries, many of which (such as Singapore, South Korea, and the Philippines) had been extremely critical of Australian protectionism.

The difficulty for the NFF was to reconcile the farmers' enthusiasm for economic liberalization in the economy generally with their mixed response to liberalization in terms of agricultural policy specifically. Despite the NFF's rhetoric about "no hand outs", the bulk of Australian farmers continued to benefit from a broad range of interventionist measures; extending from statutory marketing boards, bounties, two prices schemes, and guaranteed minimum pricing arrangements. Indeed, as suggested above, a "great body of farmers" wanted to deal with the rural crisis in the 1980s by means of "more regulation rather than less."[16] Not surprisingly, in these circumstances, it proved hard for the NFF to adopt a national point of view. As one respected academic expert on Australian agricultural policy concluded: "When the Federation supports business deregulation, it is not talking agricultural legislation. It is talking about regulations imposed as part of general economic policies covering such things as tariffs, wages, taxes, fuel levies, transportation and industrial awards."[17] Opposition in the farming community to any reforms which directly hit them comes out most clearly in the campaign of the Australian Wheatgrowers' Federation (now the Grains Council of Australia), one of the NFF's advisory groups, to block Kerin's attempt to implement the IAC's recommendation that the export monopoly of the Australian Wheat Board be eased.[18]

The third plank of the Australian Labor government's agenda was a thorough reorganization of the structure of bureaucracy in Australia. One fundamental rationale for an effort of this sort was to allow Australia to "lift its game" in terms of export performance. Dawkins was a major driving force behind this initiative. As Minister of Trade he attempted in 1985-86 to establish a sense of order (as well as consolidate a "lead" status for his portfolio) over the approximately 20 departments with some responsibility over trade matters. One major thrust of this approach was Dawkins' appointment as chairman of a cabinet committee on trade competitiveness. Another was the establishment of a new Australian Trade Commission (Austrade), as "a one-stop shop" for exporters, within the Department of Trade.[19]

The increased prominence of the Department of Trade, however, did not mean a return to the bureaucratic politics associated with the McEwen era. There was to be no return to the client-oriented, defensive approach of the 1950s and 1960s. Although in favour of new forms of consultation designed to increase efficiency within the economy, Dawkins was extremely critical of "bureaucrats with too cosy and benign a relationship, or what might be termed a client relationship . . . with their fiefdoms, who stand ready to defend these interests against encroachments from both other bureaucrats and the forces of the market."[20] Nor was there to be a return to the narrowly focused, agro-centric, trade policy of the 1950s and 1960s. Dawkins and the other economic pragmatists within the ALP Cabinet recognized that Australia's future stability, growth, and prosperity lay primarily on how well it shifted away from a dependence on exports in the erratic and hazardous primary resources sector towards a more broadly-based profile with a greater emphasis on high-tech manufactured goods and services.[21] As Dawkins stated, in a major parliamentary statement on trade policy, the "imperative" for Australia was "to create conditions which will encourage improved export performance in the fastest growing areas of world trade, namely, manufactures and services."[22]

This is not to suggest that agriculture was irrelevant to the overall trade approach. In keeping with the general strategy of identifying promising areas in terms of exports, the Department of Trade pointed to a number of areas where there was potential for major growth in agricultural exports. The difference from the past was that greater attention was paid to niche markets rather than to bulk commodities. Particular priority was given to increasing the proportion of value-added, processed exports (10.3 per cent of rural exports in 1984-85) in export sales.[23] As part of this process of re-thinking Australian agricultural trade opportunities, a major study was conducted on the issue of agribusiness and Australian trade. A key conclusion from this study, taking the process of diversification one step further, was that Australian exports would have to be increasingly based on a diversified product line in which production and marketing would be undertaken in a highly integrated fashion: "Merely trying to sell a product without it being part of a package involving, as appropriate, investment, technology, machinery, management, and marketing is unlikely to be successful... A product-only approach can mean losing opportunities for associated sales."[24] This focus meshed also with the importance attached by the government to research and development in the biotechnology area.

Given the apparent downgrading of the special status of the agricultural sector, it was difficult to convince the Farmers' Federation that an approach along the above lines was in the best interest of its membership. The NFF leader, Ian McLachlan, called the whole approach "misplaced," asserting that with these changes: "Government policies ... became wrongly slanted away from agriculture in favour always of manufacturing and services."[25] Specifically there was little enthusiasm about a policy which appeared to look at agriculture in strictly industrial terms, in other words as a sector of the economy made up of components which could be categorized as "winners" and "losers" in the international political economy.

The fourth plank of the ALP agenda of the early 1980s was the shift towards a more regionally focused trade policy. Dawkins, in his May 1985 parliamentary address on trade policy mentioned above, was firm about the need for this re-orientation: "The challenge to Australia in the next 25 years will be to tie itself as closely as possible to the opportunities associated with the rapid growth of Asia's new industrialising countries."[26] Special significance was given, above all, to developing long-term strategies with respect to the countries in Asia Pacific. The most tangible result of this modified approach was the initiation of such special programs as the China Action Plan, the Japan Market Strategy, the ASEAN Australia Economic Cooperation Program/Trade and Investment Promotion Program, and market strategies discussion in Hong Kong.

At the core of this regional strategy was the targeting of specific market opportunities. In terms of agricultural exports, primacy was given to developing the horticultural, the chilled pork, and the processed food market within ASEAN (with special attention being given to Singapore and Malaysia). If Australia was to gear product to market in this fashion, nevertheless, it was fully recognized that there would have to be much more concern given to standardization of quality, better technology, better promotion and packaging, as well as greater reliability of supply.

There was much that the NFF could find attractive about this approach towards trade enhancement. In a similar fashion to the

Department of Trade, the Farmers' Federation wanted to create the conditions in which Australian producers would be able to effectively tap into the market of the Asia Pacific region. Indeed, the NFF had gone so far as to propose that a series of trade pacts be made with countries in that region. Largely influenced by the Closer Economic Relationship (CER) being forged between Australia and New Zealand, the NFF proposed that the same sort of deal be extended to countries such as Indonesia and South Korea.[27]

What the Farmers' Federation did not want to see result was a government-imposed straight-jacket over the whole thrust of agricultural trade strategy. Ever suspicious of an overly-statist approach, the NFF wanted to make sure that flexibility in marketing was ensured in terms of Australian agricultural trade strategy. Specifically, the Federation did not want to see the gains in the Asia Pacific region come at the expense of other regions such as the Middle East. Fears of such a trade-off were prompted first of all by the lack of agricultural representation on ALP Middle East trade missions, and secondly by the closure of Austrade offices in Bahrain, Dubai, and Kuwait.

The Externalization of Domestic Agricultural Reform

A central problem for the Hawke government was, therefore, how to temper the sense of anger and frustration felt in rural Australia. One means of managing this problem in terms of domestic politics, of course, was to attempt to divert the attention away from the "failure" of the ALP government, and on to the external environment as the cause of the agricultural crisis. By re-focusing attention in this fashion, the government would at the very least be able to buy time in terms of the rural revolt until the internal adjustment process took place. More ambitiously still, it could be hoped that an outward-looking approach of this nature would externalize the reform process, thus enabling Australian producers to reap economic benefits from global liberalization (as well as providing political benefits for the Australian Labor Party).

ALP Cabinet Ministers had, from the outset of the crisis, tried to place the burden of responsibility for the Australian farmers' difficulties on global factors, especially the distortions in international agricultural trade. Kerin consistently stressed this theme. In a 1985 interview he stated that: "The real problems of agriculture are international policies as well as higher domestic cost structures. The income position of farmers can't be blamed on the Government."[28] Subsequently, he was even more emphatic on this point: "It is simply not possible . . . to lay all the blame for the problem at the door of the Australian Government . . . World prices are the problem."[29]

Although difficult, it was possible to persuade the NFF that the international situation was a major root cause of the agricultural crisis. In this context, the fundamental duality of the political approach of the Farmers' Federation must be mentioned. From one perspective, of course, the NFF could be characterized as having a populist style. Not only did it organize mass rallies and demonstrations as protest vehicles (demanding change in government policy, attempting to break "union power"), sometimes it was pushed towards these forms of agitation by the demands from its own rank and file. Moreover, in Ian McLachlan, it had a charismatic leader who could capture media attention and who had a loyal personal following within the farmers' organization.[30]

From another perspective, though, NFF may be seen as having a more business-oriented style. For one thing, the NFF's leadership had always placed great weight on establishing the organization's credibility with respect to technical expertise. The hiring of skilled experts (including economists) allowed the Federation to present well-prepared submissions on highly complex issues, for example those dealing with aspects of taxation policy or the costs to the farming sector accruing from industrial protectionism (and to try to rebut the Treasury's own numbers on these and other issues). For another thing, the need for a better image for farmers in urban Australia was recognized. To promote this more positive view a sophisticated "Our Country" multi-media awareness campaign was launched in the largest cities. Finally, a better relationship between the wider Australian business community and the farming interest was promoted by the NFF (an approach helped by the fact that several of the Federation's leaders had links to agribusiness: McLachlan, for example was a director of Elders). All of these aspects of the business-side of the NFF were facilitated, it must be added, by the Federation's ability to build up a large ($14 million Australian) "fighting fund".

If the externalization approach by the Australian Labor government was to work, it was this business-oriented side and not the populist side which had to be catered to. There were a number of ways this objective could be accomplished. The first of these was to demonstrate to the farmers (and Australians generally), through the research efforts of the Bureau of Agricultural Economics (BAE), how severely the economic situation was being affected by the illiberal practices of other international actors. Targeted particularly in this fashion was the EC's Common Agricultural Policy. The BAE's "red book", released in September 1985 with considerable media attention, calculated that the CAP had cost Australian farmers $1 billion a year over five years.[31]

The second was that the Hawke government could demonstrate that it was willing and capable of "doing something" for Australian farmers in the context of the international environment. Signs of an increasing governmental willingness to be actively involved in an externally-directed agricultural trade liberalization campaign could be seen by Bob Hawke's vigorous personal diplomacy relating to trade in 1985 and 1986. Evidence of the government's effectiveness at achieving a significant negotiating breakthrough (and, at that, one with the hitherto intransigent EC) could also be provided by the so-called Andriessen agreement under which the Community agreed not to subsidize sales of beef to Australia's major Asia-Pacific markets—Japan, South Korea, Taiwan, Malaysia, Singapore, and Papua New Guinea.

By taking these initiatives the Hawke government could start to build a rapport with the NFF based on a common objective, i.e., better access for Australian agricultural produce. To this end, Federation officials were invited to accompany the Prime Minister and the Trade Minister on all their major diplomatic missions abroad. Two NFF representatives accompanied Hawke on his trip to Brussels in February 1985, to meet the EC officials. A Federation official also travelled with Hawke on his 10-day foray in April 1986 to Washington, and a number of European capitals. Dawkins, in his report to parliament on his February 1986 mission to the U.S., was careful to give special mention of the fact that: "the Vice President of the National Farmers' Federation, who joined my delegation at our invitation . . . agrees with our assessment of the world situation and the need to find global solutions to the problems confronting not only Australian farmers but also farmers around the world."[32]

The Australian Labor government could also use this new rapport to attempt to nudge the NFF into mounting a "lobby" effort of its own in the EC. The idea that Australian farmers should take their case directly to the consumers, industrialists, and environmentalists had been circulating since the late 1970s. The main obstacle had been the financial cost of launching such an exercise, in that the NFF remained unwilling to allocate resources from its own budget. What the government suggested, in late 1985 and early 1986, was that the NFF use some of its "fighting fund" not for domestic political purposes but in the campaign overseas. As Dawkins openly admitted: "in recent discussions with the National Farmers' Federation I suggested that industry groups must also carry forward the initiatives the Government has taken to publicize amongst European consumers the burdensome costs of their agricultural support policies . . . Only by generating within the EC and globally the recognition of the deleterious effects of the

CAP will (we) be able to achieve a change in views on subsidy practices."[33]

Still, as constructive as these tactics were, it may be suggested that to get the NFF "on side" two other additional conditions were required. Domestically, some clear expressions of sympathy and support with respect to the plight of rural Australia on the part of the Australian Labor government had to be forthcoming. Significantly, the ALP made a number of moves which could be interpreted in such a fashion in late 1985 and 1986. One important move which was well received in the farm community was the large depreciation of the Australian dollar during this period. More specific relief came in the form of a rebate on the fuel excise tax for on-farm work and a reversal on tax policy with regard to the "quarantine" of farm losses. The government also tried to showcase its concern for the countryside by the establishment of the Prime Minister's Rural Task Force and the publication of the Rural White Paper. Prime Minister Hawke himself made several well-publicized trips "into the bush" to speak to agricultural audiences, including a trip in June 1986 to the heart of the rural revolt in New South Wales.[34]

Internationally, an intensification of trade tensions was the most vital factor in getting the Hawke government and the NFF to temper their differences, and (at least to some degree) work together in a common effort to reform the global agricultural system. The turning point here was the damage done to Australian agricultural exports by the U.S. through the globalization of the Export Enhancement Program (EEP). As the U.S. sought to "buy" back into markets lost in the early 1980s, Australian commodities (grains, rice, and sugar) took a beating. The Australian Wheat Board's asking price—the starting point for negotiations—fell sharply from $135/$140 (US) a tonne in April-May 1986 to around $100 (US) in August 1986. The climax to this perceived form of predatory activity came with the American offer of a subsidized sale to the Soviet Union under the EEP in the latter month, a deal which Hawke roundly denounced as "hypocritical" given the Reagan administration's public commitment to free markets and free enterprise.[35]

The U.S. actions did have the consequence of re-focusing the Australian farmers' sense of discontent. At the grass roots level, the U.S. actions generated an unparalleled wave of anti-American sentiment among a traditionally conservative constituency. Wheat was dumped outside the U.S. embassy, and calls made for a boycott of U.S. farm machinery and the imposition of a rent for the use of defence facilities (including the one at Pine Gap) as compensation for the loss of markets and revenue.[36] At the leadership level, the first tangible sign of a new relationship between the NFF and the government came with the decision of the Federation to send a delegation of its own to the U.S. to build on the efforts made by an all-party parliamentary mission (led by Kerin) in September 1986. McLachlan went so far as to tell Kerin that: "We hope to build on the good work you and your delegation have done and we will be in touch for advice."[37]

The full impact of this externalization focus, however, only came with the initiative of the Australian government to effectively establish a coalition of "fair traders" at the meeting in Cairns, Queensland in late August 1986. Indeed, in looking at this first meeting of the full "Cairns Group," it is interesting to note the manner in which the Australian media interpreted it as being an initiative designed primarily for domestic purposes (not only in Australia but in the other member countries as well). A leading article of the *Australian Financial Review*, for instance, said that: "the harsh truth is that the Cairns conference has been much more about posturing to domestic primary producing voters than it is about any serious initiative to change world trading patterns."[38]

The Hawke government certainly tried to get as much domestic political advantage as possible from being the host to this evolving third force in international agricultural trade negotiations. In comparison to the low-key atmosphere of the preparatory meetings, the Cairns conference was viewed as an important public relations exercise by the Australian representatives. All of the government's best communicators were present. Hawke gave the opening address at the meeting, calling for a tough and united trade attack on unfair trading practices in the international arena. And, in a well-attended press conference, the Prime Minister was joined by Dawkins and Kerin, as well as by Alan Oxley, the high-profile Australian Ambassador to the GATT.

Despite the strong influence of political calculations on the diplomatic style of the Hawke government, though, the Financial Review's judgement seems an overly harsh one. The seriousness of the loss of market share suffered by Australian farmers in the early 1980s (see Table 1), and the obstacles faced by them in regaining and holding onto international export markets in agricultural commodities in the mid- to late-1980s, cannot be glossed over. Given the seriousness of these trade conditions, it seems quite likely that the NFF would have eventually moved towards a more outward-looking approach even if not pressed to do so by the government. As it was, McLachlan admitted in 1987 that until the mid-1980s the Federation "had been quite negligent in getting an independent and firm feel for our markets; in assessing opportunities from a producer perspective; and, in seeking to influence the priorities in the trade policy areas."[39] In order to try to rectify this situation, the NFF had in October 1986 announced that it was attempting to formulate a "game plan" involving not only a new campaign to export Australian produce more profitably, but to extend the work of the BAE through the initiation of a global study to assess the costs of illiberal trade practices on Australian farmers.

Table 1
Australian Agricultural Exports,
Value as % of Total International Market Economy

Commodity	1980	1981	1982	1983	1984	1985	1986
Live animals	5.2	6.1	4.4	4.7	4.9	4.5	3.9
Meat fresh, chilled, frozen	11.6	9.8	10.2	9.4	7.9	8.1	8.1
Butter	1.3	0.6	0.8	1.4	2.3	2.8	2.5
Cheese	3.0	2.9	3.6	3.2	3.3	3.2	2.2
Wheat etc unmilled	14.0	10.5	13.1	6.8	13.5	14.4	17.2
Rice	2.7	3.1	4.4	2.6	3.0	2.3	2.3
Barley unmilled	14.5	7.1	9.7	4.4	15.4	22.7	10.2
Sugar	7.4	8.0	4.7	4.7	4.9	1.8	4.7

Source: United Nations, *1986 International Trade Statistics Yearbook, Vol. 11 Trade by Commodity* (New York: Oxford University Press, 1988).

Furthermore, it must be added that the Australian diplomatic drive with respect to the Cairns Group took on a momentum of its own. In contrast to the isolation and insecurity it felt after the 1982 GATT Ministerial (when Doug Anthony, the Deputy Prime Minister and National (Country) Party leader, walked out of the meeting), Australia found itself the leader of an influential multi-member coalition on the issue of agricultural trade. Consequently, the Australian government was willing to take on much of the financial and administrative responsibility for the Cairns Group because of the prestige it gained as well as for more tangible reasons.

Australian Agricultural Trade Policy as a Two-Level Game

The overall Australian approach to agricultural trade policy may, thus, be best categorized (in Putnam's phrase) as a two-level game.[40] On one level, the Australian government was concerned primarily with strategies designed to achieve agricultural trade liberalization in the international context. Particularly crucial, in this respect, was the agenda and the outcome of the Uruguay Round. On another level, however, the Hawke government had to remain concerned about domestic political pressures. While the GATT appeared to offer Australia the best approach for global reform in the long term, there remained the possibility that the agricultural situation could get worse before it got better.[41] Such a scenario jeopardized both the domestic agenda of the ALP—and its chances for re-election.

This two-level game greatly influenced the diplomatic strategy Australia pursued in terms of trade negotiations. To push agricultural liberalization by other actors, Australian negotiators often referred to the adjustments already made by Australian producers. In pressing the Japanese government to quicken the pace of internal restructuring, for instance, Dawkins pointed out that: "Australia had exposed its economy to the forces of the international market place."[42] But in making this push externally, the Australian Labor government also demanded that producers at home make renewed efforts to put their own "house in order." The most telling manifestation of this sort of pressure was Prime Minister Hawke's October 1987 speech to the contracting parties of the GATT at Geneva, in which he promised that Australia was prepared to eliminate all of its own protectionist barriers as part of a radical step towards trade liberalization. Additional intellectual support for an accelerated adjustment drive was provided by the publication in 1987 of a monograph by Geoff Miller, the Secretary of the Department of Primary Industry, entitled *The Political Economy of International Agricultural Policy Reform*. This so-called "Golden Book" argued forcefully that if Australia was to retain its credibility in world trade negotiations, continued reduction in domestic protection for agriculture (in citrus, tobacco, as well as dairy and eggs) would have to take place.[43]

This negotiating style had some considerable success. Australia, and the other members of the Cairns Group, received much of the credit for getting agriculture on the GATT agenda. *The Journal of Commerce*, for example, praised the Group for its "relentless pressure" on the major actors in the international agricultural trade system.[44] Domestically, the respect won from the farming community by the high-profile agricultural trade diplomacy of the Hawke government was one important reason why the ALP was able to dramatically turn its electoral fortunes around in the countryside. At the 1987 election the Labor Party was actually able to increase its share of marginal seats—winning at the same time 21 of the 45 rural seats in the House of Representatives.

Still, despite these clear-cut benefits, the spillover problems from this approach cannot be ignored. Most obviously, the two-level game played by the Australian government featured a marked tendency to over-negotiate in the international arena. In wanting to "do something" for their domestic producers, the Australian Labor government tended to be rather unappreciative of the domestic constraints influencing the more cautious behaviour of other actors in the negotiating process, even those it was in coalition with such as Canada. A classic case was the determined Australian drive for some immediate steps vis-à-vis early relief in combination with a longer-term reform of the international rules with regard to agricultural trade liberalization.[45] Specifically, the Australians pushed for a "freeze" on the level of farm support (adopted by the Cairns Group at the Bariloche meeting in February, 1988); a form of "downpayment" or "advance" made by the various actors (a cut of 10 per cent in support in 1989 and 1990); and the implementation of specific reductions of support in specific industries.

This approach had a number of advantages for Australia from both an international and domestic point of view. In distinguishing the Australian strategy from the U.S. (Zero-2000) longer-term strategy, the Cairns Group could maintain greater credibility with the other major actors than if it acted in unison with the Americans. At the same time, the Hawke government could continue to have much of the farmers' frustrations directed towards the U.S. rather than at itself. For sure, the NFF was openly critical of the Reagan administration's proposal. "Do they (the Americans) really expect Australian farmers to hang around until the year 2000 before seeing any worthwhile results?"[46] The difficulty, with respect to Canada, over this short-term reform agenda was one of political timing as well as technical detail. The Mulroney government was not willing to publicly commit itself to an adjustment process in the dairy (or any other sub-sector) prior to a general election, especially as that election would be fought over the issue of the Canada/U.S. Free Trade Agreement. Rather than waiting for a less sensitive moment, though, the Australian government pushed on regardless, presenting a separate paper of its own to the GATT Negotiating Group on Agriculture in July 1988 when the Cairns Group could not agree how the support cuts could be handled.[47] A final illustration of this Australian impatience to 'do something' about international agricultural trade emerged at the Montreal GATT ministerial mid-term review in December 1988, a forum, where in the opinion of some observers, the Australian negotiators appeared to be shifting their position, emphasizing short-term relief measures at the expense of long-term reform.[48] This eagerness by the Australian negotiators not to return home empty-handed may have been reinforced, moreover, by the recent introduction of a new sense of discontinuity in the Australian Labor government, a discontinuity attributable to, among other things, the surfacing of a number of personality conflicts within the Hawke Cabinet, and the cumulative impact of a long process of almost continuous re-structuring at the bureaucratic level (tensions having emerged particularly as a result of the 1987 amalgamation of the Department of Foreign Affairs and trade, and the ensuing tug-of-war between a number of departments for responsibility over Austrade). Just one illustration of this discontinuity was the prominent role played at the Montreal GATT meeting by Michael Duffy, the Minister for Multilateral Trade Negotiations within the Department of Foreign Affairs and Trade, as opposed to those Cabinet members (Dawkins, Kerin) who had attended the first Cairns Group meeting.

These flaws aside, it must be said in conclusion that Australia has proved an adept and skillful player of a two-level game with respect to international agricultural trade diplomacy. By focusing attention onto the process of international liberalization, the Australian Labor government was not only able to win a respite in terms of internal political pressure generated by its "failure" in terms of agricultural policy (an advantage which had a considerable impact on the subsequent political fortunes of the ALP). The government was also able to use the externalization of the adjustment process to sustain, if not accelerate, the pace of domestic reform. Conversely, by keeping up the momentum of domestic reform, the Australian government was able to increase it maneuverability and leverage in this single issue-area in the international system. The message by the Australian government to other governments was that "hard decisions" had to be taken in agriculture—even if those decisions meant "short-term disadvantages for sectoral interests."[49] If this message is acted upon globally, Australia can take some of the credit for the positive results from the movement towards agricultural liberalization. If not, Australia may be said to have at least attempted in the 1980s to re-position itself in the international agricultural trade system through the implementation of the Hawke government's reform agenda.

Notes

1. See, for example, Jocelynne A. Scutt, ed., *Poor Nation of the Pacific? Australia's Future* (Sydney: Allen and Unwin, 1985); Nicholas D. Kristof, "Australia's 'Luck' Starts Running Out," *The New York Times*, January 19, 1987, D6. A good analysis of Australia's changing position in the global economy is provided in Richard Higgott, "Australia: economic crisis and the politics of regional economic adjustment," in Richard Robison, Kevin Hewison and Richard Higgott, eds., *South East Asia in the 1980s* (Sydney: Allen & Unwin, 1987), 177-217.

2. Figures given in *Debates*, House of Representatives, April 23, 1985, 1653.

3. Figures given in L.B. Krause, "Australia's Comparative Advantage in International Trade," in R.E. Caves and L.B. Krause, eds., *The Australian Economy: A View from the North* (Sydney: Allen & Unwin for the Brookings Institution, 1984), 281.

4. Quoted in Deborah Snow, "Australia in the crossfire of a US, Europe trade row," *Australian Financial Review*, July 16, 1985, 11.

5. Quoted in Julian Cribb, "Bushwacked by Labor," *The Weekend Australian*, August 1-2, 1987, 8B. See also Michelle Grattan, "Farmers want action rather than talk from sympathetic Hawke," The *Age*, June 29, 1985, 10.

6. Quoted in Nigel Austin, "Kerin's deep split with farmers," *Bulletin*, November 12, 1985, 36. See also "John Kerin: the Labor man conservative farmers trust," *The Australian*, December 30, 1983, 5.

7. For a good overview of the politics of this period, see A.S. Watson, "Rural Policies," in Allan Patience and Brian Head, eds., *From Whitlam to Fraser: Reform and Reaction in Australian Politics* (Melbourne: Oxford University Press, 1979), 157-172.

8. The World Bank, *World Development Report 1987* (New York: Oxford University Press, 1987), 231.

9. "Bouquets for new-style farm leaders," *Australian Financial Review*, May 31, 1985, 12.

10. On this perspective see Peter J. Katzenstein, "The Small European States in the International Economy: Economic

Dependence and Corporatist Politics," in John Gerard Ruggie, ed., *The Antinomies of Interdependence* (New York: Columbia University Press, 1983), 93. See also Katzenstein's *Small States in World Markets* (Ithaca and London: Cornell University Press, 1985).

11. Rolf Gerritsen, "Why the 'uncertainty'? Labor's failure to manage the 'Rural Crisis'", *Politics* 22 (May 1987), 49.

12. Katzenstein, "The Small European States," 115.

13. See, for example, Keith Richmond, "The Major Rural Producer Groups in New South Wales," in Roger Scott, ed., *Interest Groups and Public Policy* (Melbourne: Macmillan, 1980), 73-74; R.F.I. Smith and G.S. Harman, "Australian organisations and the making of farm policy," in Peter Drysdale and Hironobu Kitaoji, eds., *Japan & Australia: Two Societies and Their Interaction* (Canberra: Australian National University Press, 1981), 215-235.

14. A Government Policy Statement, *Economic and Rural Policy* (Canberra: Australian Government Publishing Service, April 1986).

15. Most dramatically, the NFF scheduled a massive rally in Canberra to coincide with the opening day of a tax summit convened by the Hawke government. See David Barnett, "A show of rural strength frightens Hawke," *The Bulletin*, July 16, 1985, 50-52.

16. Keith Campbell, "Prospects for deregulation of Australian agriculture," *The Australian Quarterly*, Spring 1985, 253.

17. *Ibid.*, 248.

18. See Sarah Sargent, "IAC report goes against the wheat board's grain," *Australian Financial Review*, October 8, 1987, 10.

19. Richard Farmer, "Trade department grabs back some of its influence," *The Bulletin*, July 2, 1985, 36; Kenneth Randall, "The Power behind the throne," *Business Review Weekly*, December 19, 1986, 62.

20. Quoted in "the Power behind the throne," 62.

21. See J.F. Helliwell, "Natural Resources and the Australian Economy," in Caves and Krause, 394.

22. *Debates*, May 13, 1985, 2148.

23. Agricultural Trade Group, Department of Trade, "Agribusiness: Structural Developments in Agriculture and the Implications for Australian Trade" (Canberra: July 1987), 55. See also David Shires, "Spotlight on agricultural trade in Dawkins' revamp," *Australian Financial Review*, January 8, 1986, 3.

24. "Agribusiness," 89.

25. Address by Ian McLachlan, to a seminar, "Successful Strategies for Australian Trade," (Sydney: The Centre for International Economics, October 23, 1987), 16.

26. *Debates*, May 13, 1985, 2149. See also Ali Cromie, "Dawkins sets his sights on Asia," *Business Review Weekly*, September 13, 1985, 88, 90.

27. Valerie Colyer, "Farmers want trade pact," The *Age*, November 29, 1984, 22; Rod Metcalfe, "Farmers to seek a S-E Asian counter to incursions," *Australian Financial Review*, November 21, 1984, 10.

28. Quoted in Adrian Lynch, "Australia's Grapes of Wrath for politicians and farm families," *Rydges*, October 1985, 19.

29. *Debates*, April 15, 1986, 2281.

30. A scion of one of South Australia's leading rural political families, educated at Cambridge University and a former star cricket player, McLachlan had risen to prominence during the Mudginberri meat dispute. For profiles, see Peter Menadue, "An establishment man goes to bat for angry farmers," *The Australian*, July 5, 1986, 9; Peter Ward, "The gentleman radical of rural Australia," *The Weekend Australian*, December 27-28, 1986, 13.

31. Bureau of Agricultural Economics, *Agricultural Policies in the European Community: Their Origins, Nature and Effects on Production and Trade* (Canberra: Policy Monograph No. 2, Australian Government Publishing Service, 1985).

32. *Debates*, House of Representatives, February 17, 1986, 635. Dawkins added a few days later in the House that he was "appreciative of [this] support and assistance." February 20, 1986, 956.

33. *Debates*, February 20, 1986, 956. The Minister for Foreign Affairs, Bill Hayden, made this point even more directly. Speaking on a public affairs program on television he

specifically urged that the NFF use the "fighting fund" to lobby the U.S. government.

34. Hawke was careful to reiterate the basic theme, in these addresses, that it was the international situation which was the root cause of the domestic rural crisis. See *Debates*, February 20, 1986, 959. In a similar vein, the theme of Hawke's trip to the U.S. and the EC was: "the concern the Government has for the position of Australia's rural producers in the light of the corruption of international markets for agricultural commodities." Tony Duboudin, "Hawke tour to protect Australia's farm trade," *Times* (London), April 16, 1986, 8.

35. See, for example, Peter Samuels and Mike Seccombe, "Hawke flays US hypocrites over cheap wheat for Russia", *The Australian*, August 1, 1986, 1.

36. Paul Austin, "Anti-US protests over subsidies for Soviet wheat deal," *The Australian*, August 4, 1986, 1.

37. Quoted in Sarah Sargent, "Delegation returns triumphant from US," *Australian Financial Review*, August 8, 1986, 5.

38. "Strange Goings-on at Cairns," *Australian Financial Review*, August 28, 1986, 14.

39. McLachlan address, October 23, 1987, 1.

40. Robert D. Putnam, "Diplomacy and domestic politics: the logic of two-level games," *International Organisation* 42 (Summer 1988), 427-460.

41. Amanda Summers, "GATT victory only first step: Dawkins," *Australian Financial Review*, September 22, 1986, 1, 4.

42. Brian Robins, "Dawkins tackles Japan for access to markets," *Australian Financial Review*, August 15, 1986, 5.

43. Geoff Miller, *The Political Economy of International Agricultural Policy* (Canberra: Australian Government Publishing House, 1987), 8. McLachlan responded to Hawke's Geneva speech by saying that farmers would be prepared to go without assistance so long as other sectors did so as well. Peter Fray, "Farmers are ready to do without govt help," *Sydney Morning Herald*, October 24, 1987, 4.

44. "The Mighty Cairns", *The Journal of Commerce*, May 27, 1987, 10A.

45. See, for example, Australian Government, "Resolving the World Agricultural Crisis: An Australian Proposal," January 1987.

46. Andrew Robb, executive director of the NFF, quoted in Brian Norwood, "How America is squeezing our farmers," *Business Weekly Review*, August 28, 1987, 28.

47. Submission by Australia, to Negotiating Group on Agriculture, "Illustrative Elements of Commitments to Reduce Support as Part of First steps to Long-term Reform," MTN. GNG/NG5/W/70/Rev. 1., July 13, 1988. See also "Geneva get-together," *Australian Financial Review*, July 12, 1988, 39.

48. A document presented at a private meeting of agricultural trading countries in Geneva during the first week of December omitted calling for the long-term abolition of all farm subsidies. Janet de Silva, "Australia has soft option on farm subsidies," *Australian Financial Review*, December 1, 1988, 3.

49. Hayden, quoted in the Toronto *Globe and Mail*, August 5, 1988, B8.

9

Brazil: Consumer Interests and Export Constraints

*Orde Morton**

Brazil is one of the largest agricultural producers and exporters in the world: about the sixth producer and probably the third exporter, a little below Canada. It is the world's greatest producer of manioc, bananas, oranges, sugar cane, and, of course, coffee, and an important producer of an enormous range of tropical products only beginning to be fully commercialized. Its large agricultural exports are extremely important to the Brazilian economy because Brazil runs an enormous surplus on its agricultural trade. The preliminary figures for 1988 show exports of about $12.6 billion U.S. and imports of a little less than $2 billion; hence, agriculture accounts for well over half the trade surplus. It is obviously highly relevant to Brazil's ability to finance its future development.

Brazil is proverbially the land of the future. That is certainly very true on the agricultural front because, in spite of the large scale of the existing agricultural output, only about 61 per cent of the area of Brazil is under cultivation. That could be increased by a factor of at least four, and since the intensity of production is still quite low, although rising, the future potential is obviously very large indeed.

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* The views expressed here are those of the author and should not be attributed to Brascan.

Here, where we are talking about international trade, Brazil is a misfit in some ways. For practical purposes it has attained self-sufficiency in agricultural products. Now that the country produces in most years all the wheat it needs, agricultural imports are secondary, ad hoc and usually to meet an immediate crisis. Another reason why Brazil is not really a good subject for this symposium on domestic politics and international trade is that, on the whole, domestic politics in Brazil don't have very much to do with the country's international trade. The government is a very active player in all aspects of Brazilian life, including agriculture, but to a great extent the export sector operates by itself without government stimulus, without politics, and indeed, in some cases, with government restraints.

I'd like to say a few words now about the structure of Brazilian agriculture as a background to the policies of the government. It is physically very diverse. Those of us born and raised in temperate climates tend automatically to think in terms of one year, one crop, one harvest. In a tropical country like Brazil, many products have no harvest at all (like oranges or manioc) while some have two or three a year. Sugar cane tends to run on a year and a half cycle, while tree crops may take 5 or 10 years to yield a crop. This greatly complicates policy making for the agricultural sector and particularly complicates all questions of finance. But even more fundamental is the distinction in Brazilian agriculture between the export and the subsistence sectors. This polarization is as old as civilized life in Brazil itself. Capital and government interest, government support, labour, all the factors of production, tend to flow into the export sector. That was true in the sixteenth century and, to a remarkable extent, is still true today. For most of Brazilian history the owners of large estates directed towards export formed the ruling class of the country and they are still an important political and social force today. By contrast, subsistence agriculture has been seriously undercapitalized, and left to small marginal holdings and people who would normally be classified as peasants. As a result Brazil has very often presented the paradox of a country which is a great agricultural producer and exporter, which has great reserves of fertile land, but which faces continual shortages of ordinary day-to-day foodstuffs.

This distinction has been blurred a little in recent decades simply because of the very great increase in the Brazilian population which is now about 145 million. More and more export crops are consumed at home and in the case of sugar, by far the greatest part is now consumed in Brazil, either as food or as fuelled alcohol. Soy and other commodities also straddle the divide. Nonetheless the domestic-export distinction is still an important conceptual division because the government's policies tend to be directed to counteract the natural predominance of the export sector to ensuring that the subsistence sector stays in business and grows at least as rapidly as the population.

A second polarization is that between fundia and mina fundia: between great extensive holdings and holdings which are too small to support a family. There is no nostalgia for the family farm in Brazil, there's no mythology about it and that's for the excellent reason that family farms have never at any time been an important factor on the Brazilian agricultural scene. Even tenants and share croppers are quite rare. Most of the actual cultivators of the soil have been people allowed to stay on the land by the landowners. Entering into a variety of informal relationships, they're called agregados which literally means "those added on". They have not really been part of the money economy at all.

This polarization of estates overlaps to some extent with the polarization between the export and subsistence sectors, but not completely. The very largest estates, the cattle ranches which run up to 100,000 hectares, are not particularly oriented for export and indeed many of them are not even particularly interested in producing for the domestic market. This pattern of land holding, of course, has very definite social consequences which are widely thought to be deleterious; counteracting them is an important object of public policy.

In the past 25 years or so, this immemorial pattern has been somewhat modified by the emergence in the south and centre of the country of highly capitalized, large properties of businesses which use the full paraphernalia of modern technology of fertilizers, insecticides, and mechanization and which have a much higher productivity per acre. This mechanized agriculture does not depend on a settled agricultural population, but on migrant labourers. The latter are an important new social phenomenon, closely comparable to the large numbers of migrant labourers in the United States or here in Ontario. They represent a new, and for more traditionalists, somewhat alarming part of Brazilian society. For the first time in Brazilian history, agricultural labour is in surplus in relation to land. Now that labour is plentiful, the Brazilian countryside has become the scene of very severe social tensions, particularly in the newly settled frontier regions along the western frontier of Brazil and along the southern edge of the Amazon forest. Disputes over land holding have erupted, as the increasing numbers of landless and migrant labourers try to obtain a footing on the land and the real or putative owners of great estates resist their claims. The government has ignored the problem; the new constitution which came into force in October 1988 is remarkably even more resistant to land reform than the military government was. It has been made illegal to expropriate productive land. Given the general nature of Brazilian society we may be sure that productive land will be interpreted in a very broad sense. Since the underlying social causes of the tensions, conflicts, and violence are not going to go away, we can expect more of the same. Thus, Brazilian agriculture is not entirely a matter of setting prices; it has a very important social background.

And finally, all these changes in the structure of Brazilian agriculture are taking place within a country which is now industrialized. Agriculture now accounts for about 9 per cent of Brazil's GDP, and industry, for about 38 per cent. The latter figure is very high—indeed higher than Canada—and the needs, real or imaginary, of industry are one of the most important factors the government considers in formulating its policies. What the government does is very important indeed because there is probably no country outside the communist countries in which government plays so large a role in the economy as in Brazil. Some estimates indicate that the government owns about 70 per cent of industry. And yet government land ownership is a less important means of intervening in the economy than are the host of regulations, subsidies, prohibitions and all other means of government intervention in the economy and in agriculture. Perhaps the only important difference between agriculture and industry is that the land, by and large, is still in private hands. There is not much direct government ownership of the means of production in that sense.

Government intervention takes two forms: general measures which apply to all agricultural commodities; and the special regimes created for some crops like coffee, sugar, cocoa, and a number of the older export crops which were at one time or another politically influential enough to have a special regime created for them. The government supplies credit for production costs; called the "velora basaco du custao" in Portuguese, it translates as based line crop financing. In August or September every year the government sets the velora basaco for all the major crops on the basis of an estimated range of yield per hectare and as a function of the guaranteed minimum price. This system is administered by the Bank of Brazil, owned by the government and the only bank present throughout Brazil. The system began in the 1950s when most of the modern forms of government intervention in agriculture began. Up until that time, there had been a tendency to assume that nature would look after things, but as the country industrialized it became obvious that something more was needed. The rationale for this particular form of intervention of supplying credit to the farmer is that the government is doing what the banks refuse to do. Before the 1950s the only important sources of crop financing were merchants and processors of various kinds and their efforts were directed almost entirely to the export sector. As well as loaning money itself, the government forces Brazilian banks to loan 20 per cent of their portfolio to agriculture.

The system of credit financing contains a large element of subsidy in the form of low interest rates. Real interest rates in Brazil are the highest in the world, usually about 30-35 per cent annually. The government credit financing has led the interest on agricultural credits to fall as low as 10 per cent. When the government became aware that farmers were taking government credit and re-investing it in government bonds, the element of subsidy declined in the 1980s and in most cases disappeared altogether. Thus, the only real subsidy in Brazil for agriculture production is not now a particularly important one. Credit is also finely tuned to be more favourable to small farmers than to large, and for food crops rather than for export crops. In spite of this, the effect of government credit financing has probably been to encourage the emergence of the large capitalized agri-businesses and the disappearance of the mina fundia and the creation of a large landless class of labourers.

The second form of government intervention is guaranteed minimum prices. Since 1951 the government has set a minimum price for all important crops; it will buy up the crop if no one else will. This has had a checkered history. Most of the time the price has been so low that the government has not actually had to make good but in the last 10 or 15 years prices have been set high enough to be forced into the market. The government has acquired large stocks of food. Setting the minimum price is a very complicated business, particularly in a country where inflation is now about 1,000 per cent. The government's record at price setting is not very good; in particular, after a large harvest, it tends to set the price too low and thereby aggravates things rather than evening them out. Of course, politics comes into this. In its last year the military government set the highest prices ever in an attempt to ensure that the transition took place with happy farmers and well fed consumers. When they left office, they left their civilian successors to find the money.

The third form of government intervention is maximum consumer prices for all basic foodstuffs. It is illegal to sell almost any important kind of food in Brazil except at the price set by the government. This system has a venerable history; it has existed since the 16th century in one form or another. It is easy to defend it on short-term grounds: it can be seen as an anti-inflation measure that reduces pressure on wages and consequently social tensions, as well. But it is widely agreed that its effects have been very serious indeed for agriculture. An example is the ranching industry. Brazil has about 130 million head of cattle, enough to supply the population. Unfortunately middle-class people in Brazil believe first, that beef should not cost more than a dollar a kilo; and second, that if you don't eat beef every day you will die. It is quite useless to argue with them about this. They are in an earlier stage of dietetic theory. As a result, since in Brazil, like in other countries, it is quite easy to deprive the poor of what they have but very dangerous to tangle with the middle-class, the price of beef and the price of milk, too, are kept very low. The ranching industry is extremely undercapitalized. Paradoxically, producing beef is an incidental by-product of the ranching industry. People go into it for the social prestige, because land is a important store of value in an inflationary world, and because you can produce other things on the land if there's nothing in the cattle business. This is an example of how agriculture has been decapitalized in order to feed the cities and to encourage industry. As Murray Smith mentioned in his opening remarks there is in Third World countries active discrimination against agriculture and it is certainly true in Brazil. There are a number of other examples. For instance, as you perhaps know, Brazil is surrounded by an enormous tariff wall and a tremendous thicket of prohibitions on imports. In effect no consumer durables and no transport goods are imported into Brazil; this includes agricultural inputs such as tractors and fertilizers. A Brazilian farmer cannot find the best price in a world market; he has to buy what Brazilian industry produces. If that happens to be expensive that's too bad. The government also maintains stockpiles of food, partly from intent as in the case of coffee, partly as a by-product of the minimum price policy and, of course, these stockpiles are used to reduce prices to the consumer and thereby decapitalize agriculture still further. This is very unpopular with the farmers but the government consistently puts the short-term interests of consumers first. Also, all imports of farm goods are effectively prohibited unless the government decides to allow certain imports for special immediate reasons. Those reasons are usually if the price of a given basic foodstuff starts to go up too far. In 1986 beef disappeared almost completely from the market and the government imported large quantities from the Common Market and Argentina. In other words, imports are used simply to reduce prices to the producers and the consumers and the urban and industrial population over the agricultural.

Perhaps most dramatic of all, the government actually prohibits exports of certain goods. Cotton is a notable example. The theory behind this is that it's better for Brazil to export cotton as finished goods, as finished textiles, rather than raw. But again, of course, the ban has the effect of limiting the markets open to the cotton farmers and, as a result, cotton production tends to be barely adequate even though much of Brazil is ideal country for growing cotton.

The last government intervention is the tax on agricultural output. The states in Brazil are supported by a tax called the ICM which is a value added tax collected on all sales, including sales of agricultural products at the farm gate. The basic rate is 17 per cent, although again, there are many variations. It is obviously quite impossible to reconcile this with all the other policy goals mentioned. The agricultural output tax is kept for the simple reason that without it the finances of the states in the Brazilian federation would collapse. But until somebody thinks of another way to make ends meet this is going to continue. Coffee, still Brazil's second agricultural export, is even more heavily taxed at the rate of 36 per cent of its minimum price. To export coffee, it is necessary to purchase by auction an export license, which in January 1989 was $39 U.S. for a 60 kilo bag. In other words, a large part of the price of coffee embarked in a Brazilian port goes not to the producer but to the government.

In contrast to this formidable array of interventionist measures, measures to stimulate exports are extremely rare, really almost non-existent. The value added tax is not collected on exports so the states constantly campaign to have it so collected. Brazil occasionally enters into barter arrangements, exchanging coffee for oil, or frozen chickens for Iraqi oil. There is a bilateral agreement with Argentina whereby the two countries give some preference to some of their agricultural exports. But in general Brazilian agricultural products leave port without government subsidization; the great volume of exports are a result of comparative advantage. For almost all the things it exports, Brazil is naturally a low cost efficient competitive producer: its cheap land, warm climate, and cheap labour have made it a great exporter in recent years of soy and orange juice.

What is the government trying to achieve? That is hard to say because it's trying to achieve several contradictory things at once. It wants a reliable food supply for the cities. The challenge of feeding the 110 million people living in cities in Brazil is a very considerable one, particularly if it is to be done at prices they can afford. By its various battery of means, the government is trying to control inflation, and to keep wages and social tensions under control. There are also other policy considerations which I haven't time to go into now, like strategic considerations such as have inspired the fuelled alcohol program which is intended to make Brazil able to survive if oil is ever cut off completely. There are regional development considerations. There is the need for raw materials for industry. And finally, and I really think this is the last on the list, there is the need to encourage exports. That is very much the last.

What does all this mean for the wider world? I think it probably doesn't mean all that much really. Brazil is a self-sufficient country whose government's policies are driven by concerns of domestic politics, by the nature of Brazilian society and Brazilian agriculture. Its exports are successful because they have a comparative advantage. It is true that agricultural imports are prohibited, but even if all the prohibitions were swept away, it is unlikely that Brazil would ever become a large importer of agricultural goods, unless of course they were subsidized as in the European community. Brazil's interest in the international forum is very simple: it is to guarantee or at least make as secure as possible access to other country's markets for its agricultural exports. Hence its membership in the Cairns Group. Brazil sees and always has seen GATT as very much a one way street. It is very interested in access to other people's markets, it has no intention of giving access to its own and this has become even more important with the emergence of soy and orange juice as major export crops which face competition from other important suppliers. But it is perhaps unjust for Brazilians to get away with this. Indeed, on the question of industrial exports more and more people are asking why the Brazilian industrial goods can and do compete successfully in Montreal or Frankfurt when imports face 200 per cent tariffs in San Paulo. But I think on the agricultural front they are likely to continue to get away with it for quite some time to come.

Part Three

Domestic Groups and Agricultural Trade Policy: The View from the Trenches

10

Canadian Farmers' Interest in International Trade Reform

Don Knoerr

Introduction

I'm not sure if we are involved in trench warfare, but trade issues and trade negotiations have been a major factor in policy considerations for my organization and will continue to be for at least the next year or two.

What I will try to do today is start with some background observations, discuss what Canadian interests in the GATT negotiations are, talk about how we, as farmers, influence the process, and finally think about the type of outcome that might be achievable and benefit Canada. The last is obviously the most difficult.

Is Agriculture Different?

I think agriculture **is** different and appreciating this is important to understanding what should happen in GATT.

Our industry is unique as a primary producing sector. It is composed of a large number of small businesses, which are in the main family owned. The returns from agriculture are not sufficient to attract much risk capital. These family owners capitalize their operations with savings or borrowed funds, which creates a particular type of financial risk. The land base, necessary for their operations is privately owned, but is considered a public resource. How we can use that land base is often affected by the public interest. The public and government have views about the price, and stability and security of supply of the product we produce, food.

I would hope that our goal in GATT, as in other government activities, would be to improve our fiscal well-being, our social environment, and equity between our citizens. If so then surely our primary goal is not creating a marketplace that conforms to someone's theory of perfection. Some others, however, reverse this equation. They don't know the difference between a practical evaluation and a theology.

Where do Canadian Farmers' Interests Lie?

Canada is a major agricultural trader. We export 40-50 per cent of our agricultural production and import perhaps, a third of the agricultural products we consume.

The most obvious consequence of the current agricultural trade environment is the impact of subsidies (both domestic and export directed) on our grain and oilseed producers. Unbridled domestic subsidies encourage production in excess of market requirements, resulting in surpluses that have to be dumped. Direct export subsidies have overtly driven international prices down to a level below anyone's cost of production. The effect of the current trade war on the grain and oilseed sector is the most apparent problem but certainly not the only one. Current countervail and anti-dumping rules do not recognize the fundamental interest primary producers have in the marketing of their product in processed form. The EC has been successful, so far, in challenging the right of cattle producers to bring countervail action against subsidized beef, a rather preposterous situation, in my judgement. The current U.S.-EC dispute over the Community's ban on meat produced with hormones illustrates the problems that can occur with technical regulations.

Many of the present national agricultural policies can be attributed to a desire to protect domestic producers. However, there are specific rules relating to safeguard measures (measures designed to protect vulnerable domestic industries). Under GATT rules a country cannot take safeguard action without providing compensation to, or being subject to, retaliation from the affected exporting countries. As a result our meat import law (designed to control surges in beef imports) is ineffectual. Canada's attempt to control imports of subsidized EC beef, through the Meat Import Act, was soon abandoned when we learned what they would do in retaliation.

Canada's lamb producers aren't opposed to significant imports of lamb. However they have been seeking government assistance in obtaining voluntary agreements or regulations that would maintain order in our lamb trade, so that domestic producers can have a share of our growing lamb market. They have not been successful because of GATT rules and the current negotiating environment. The net effect seems hardly equitable. The U.S., through bluff or bullying, appears to be more successful with its meat import law. Our efforts to retaliate against the U.S. duty on shakes and shingles had little impact and were soon abandoned.

Canada believes that it follows GATT rules (Clause 2c(i) of Article XI) when it establishes import quotas in conjunction with domestic supply management. However this is being challenged in GATT by the U.S. They are attacking our inclusion of ice cream and yogurt on the Import Control List. The hypocrisy of this situation is that the U.S. already has quotas or prohibitions on the importation of these products. Because of a 1955 GATT waiver, they don't have to follow the rules that they are interpreting for us.

The interests of Canadian farmers can also be expressed in terms of types of programs and marketing structure they wish to maintain. I'll say more about that a bit later.

How Do We Farmers Influence Our Government Trade and GATT Policy?

Our being there is an influence by itself. Not only is agriculture a significant part of the national economy, it is the fundamental economic activity in many of our rural regions. Even if farmers become strangely silent at this point, it would be hard to imagine our trade representatives taking a narrow philosophical approach to GATT which only served the interests of a limited part of our industry.

Farmers are, of course, organized in various groups designed to take their views to government. And these groups are far from silent. These groups develop policy, make public statements, meet with their MPs, make presentations to caucuses and meet with ministers. Some hire lobbyists, others depend on farmers to make the representation.

But, in truth, I'm not in a position to talk in detail about the activities of organizations other than my own. Although CFA is not the only organization that attempts to develop a collective national view, it is somewhat unique. We are the only national organization whose membership includes a significant cross-section of farmers in every province. All of the existing provincial general farm organizations (except Newfoundland) belong. Five national commodity groups are members and we have a working relationship with a sixth.

There is not anything particularly complicated or crafty about our lobbying process. Our methods are rather straightforward. We discuss issues with government staff and make presentations to caucuses and ministers and at times make public statements to emphasize a point.

The most important part of the process is the policy development itself. That is particularly true in regard to trade. During the early stages of the GATT discussions, CFA has functioned under the policy mandate developed during the FTA negotiations. We have spent considerable effort to inform our members about the issues in GATT and how the process was evolving. We have used background documents, seminars, meeting with officials and the circulation of negotiating positions and GATT documents. Through our participation in the International Federation of Agricultural Producers and other international meetings, we have endeavoured to develop an understanding of the views of other national farm groups. It is only now, after this process, that we are updating our trade policy and trying to make more detailed judgement about what should occur in GATT.

The reason I say this is the most important part of the work relates to the nature of federal government policy itself. Whether it's government policy or organizational policy, the national picture is going to be somewhat different than the view of any one part. It is our ability to develop a national consensus, on where our collective common interest lies, that is most influential. In the end the federal government must have a policy that is a fair balance among the various narrower interests within the country.

A very important part of the trade process is the SAGIT. It provides a window on the negotiating process, an opportunity to consult with our negotiators and a vehicle to influence the Minister of International Trade.

How Can the Puzzle Fit Together?

Before I look specifically at the GATT puzzle, I'd like to make a few more observations about Canada's interest. The FTA deals with access to our largest single export market. In the MTN our principle access concern doesn't relate to the markets of the major exporters. It relates to competition with their subsidized product in, and access to, third markets.

Even if all government trade-distorting measures disappeared, there is no evidence to indicate the problems related to the level of returns to agricultural investment or related to cyclical markets will disappear. We will still need programs designed to mitigate the financial pressures faced by farmers. The fundamental issue at stake, in attacks on our marketing boards and in the linkage between primary production and processed products, is the ability of producers to collectively work together to market their product. It is a question of market leverage.

Canada's agricultural sector is diverse enough that an understanding of how to achieve a balance in our collective interests is a good starting point for understanding what makes a useful balance for GATT. Without trying to suggest that my logic would carry any weight at the negotiating table, I will try to give my thoughts on how these negotiations could work.

I see a world where, from the start, the spirit of GATT rules has not been compatible with the domestic agricultural realities of many of the GATT members. Hence they have used every device imaginable to find ways to protect their domestic agricultural interests. In my judgement the common approach taken toward the current round of agricultural negotiations has ignored the implications of that perception. This common view (my term) has used a world totally free of government trade intervention as the norm. Then it has tried to measure numerically how far each country has deviated from that norm (aggregate measurement) and then tried to figure out a system whereby each country can reduce that deviation.

The greatest risk in the current approach is not that no change will occur. The risk is that after changes created in this round do occur, countries will still not be equal in their conformity to common GATT rules and the current imbalances that exist between GATT members will continue.

I would suggest that the norm we should seek for the present (And who knows about the far future? It hasn't occurred yet) is to define a set of practical and achievable GATT rules: rules that deal with the major trade issues but are realistic enough that countries can honestly agree to live with them. Then we should look at how, over a reasonable period of time, all countries can be brought into equal conformity to those rules.

I'll give you a short shopping list of the type of rules we should consider.

1. *Subsidies*

The focus could be on the export of subsidized product. Countervail and anti-dumping rules deal with part of the question. The big need is to deal with the sale of subsidized products to willing buyers (third markets) that damages the interests of other competing exporters.

2. *Access*

The focus could be on ensuring all countries have equal opportunities to sell to markets that do exist and ensuring that the barriers that do exist conform to clearly defined rules. Countries could be required to set all tariffs or levies at a fixed amount or percentage. The rules relating to XI 2(c)(i) should be improved to define properly the type of domestic production control necessary to allow the imposition of import quotas. The linkage between primary production and processed products needs to be recognized.

3. *Safeguard Measures*

Rules could be developed that allow safeguard measures to be used without compensation or retaliation, but only under carefully defined circumstances. Criteria for alleviating safeguard action could be a significant drop in the price of the imported product, a rapid increase in the level of imports, or the protection of a minimum share of the domestic market for domestic producers.

4. *Technical Regulations*

We all tend to accept the need for better discipline on the use of technical regulations, but the question we haven't faced is how to deal with social judgement. The EC ban on hormones or the Swedish rules on meat production were not made to disrupt trade. They weren't based on present scientific evidence. They were social judgements by consumers on how they want their food produced. Farmers opposed the measures, but have no choice—they have to live with the laws. Should they be forced to compete with imports produced more cheaply, because of a technology they can't use?

Other questions that may need considering include: Japan's concern about continuity of supply if access is to be opened up, the differentiation between various commodity markets, and the role of international commodity agreements.

It is obviously easier to define problems and to identify self-interest than to find solutions. I hope that my thoughts will at least contribute to a useful discussion.

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U.S.A.: The Perspective of a Congressional Staffer

Greg Frazier

I would like to begin with an example that illustrates the way that agriculture policy in the U.S. is made, and the competition that exists between personalities, ideology and ideas. About a year ago we were working on a fairly major agricultural research bill. There was broad agreement in the agriculture committees that we needed first, to reform the agriculture initiative at USDA, to streamline the process and get it more focused; and second, to move it in a new direction. Everybody wanted to do that. The Senate had a slightly different approach than the House, and so we were negotiating and negotiating and negotiating to try to work out the differences. And it never happened. The outside observer would suspect that there were certain differences between the two bills that explain why the bill did not go. But the reason why the bill did not go was because of the personal animosity among some members on the committee. While I don't want to put too much emphasis on it, this example suggests that it would be incorrect in looking at U.S. domestic farm politics to underestimate the power and the influence that personalities have, as in all U.S. politics.

I'm not saying that what goes on in U.S. farm politics is the penultimate, the most important thing, which is determining and driving the GATT negotiations. But it's going to be an important influence on what the U.S. does and what ultimately the U.S.

negotiators feel comfortable with and can sell at the bargaining table.

Let me give you a few of my thoughts and observations on the U.S. domestic agriculture scene, starting first with the domestic farm groups. We have an interesting tradition, sort of a change I believe, in domestic farm politics starting with the groups like the Grange, the American Farm Bureau in the early part of this century, and then really going into the depression when the farm programs first got started and you saw the rise of the National Farmers' Union and the National Farmers' Organization. A few years ago another group, the American Agriculture Movement, came into being. As diverse as all these groups are in the way that they see policy, they do have one thing in common. They are what we call general farm groups. They embrace dairy farmers, wheat farmers, cattle farmers, fruit and vegetable farmers. They are not just wheat farmers, they are not just interested in cattle, they are not just interested in fruit and vegetables, but they span the whole gamut of agriculture. For years and years in the United States those groups dominated domestic farm politics. To a certain extent, they are still undeniably very important. The American Farm Bureau Federation is by far the largest farm group in the United States. But in the last ten years or so, single commodity interest groups have arisen. They grew out of a lot of effort by wheat growers, for example, to promote and sell U.S. wheat overseas; of the dairy groups to promote and advertise U.S. dairy commodities; or similar efforts by the soybean growers or sunflower growers. These single commodity groups have very, very narrow focuses. For example, there is a new group in Kansas whose sole interest is white winter wheat and who feel that the Kansas Association of Wheat Growers is not representative of their interests. The consequence in terms of making farm policy is that you have the rise in influence of groups which aren't looking out for the general good, for the whole spectrum of U.S. agriculture, but are only interested in fighting for their one little niche.

In the Congress, especially in the House, the agriculture committees have become organized along the same lines. For example, I work for the Chairman of the Sub-Committee interested in wheat, feed grains and oil seeds. We have another sub-committee which is devoted exclusively to cotton, rice and sugar; another one which is concerned with dairy, livestock and poultry; and then another sub-committee for tobacco and peanuts. While we also have broader sub-committees, sub-committee organization in the House in the last 10 or 15 years has become very, very specialized. To a certain lesser extent, specialized sub-committees exist in the Senate, but the Senate operates a little bit differently. Thus committees have been organized to parallel this rise of the single commodity, narrowly focused interest groups. The same thing is happening at the Department of Agriculture. The ASCS, the main institute there which administers the price of commodities, has separate divisions for cotton, wheat, feed grain, and rice. The same compartmentalization exists in the foreign agriculture service. Thus the problem is that the general farm groups, the general people who ought to be looking out for all of agriculture and all rural interests, are on the wane and institutional structures which are devoted to very narrow single interests are strengthening. That's one political structural element that we have to deal with.

The other question is the role and influence of U.S. agriculture, U.S. farm policy and U.S. farm politics on domestic politics in the United States. I think anybody would be struck by the anomaly of 1 per cent of the population of the United States being able to wield such extraordinary political influence. The farm lobby in Washington is extraordinarily powerful. The reasons why are manifold. One is historical: there is an extraordinarily deep political and emotional attachment and allegiance in the United States to agriculture, to farmers, to this Jeffersonian ideal of the yeoman farmer. That's the roots of our republic. More institutionally, every Senator in the United States has some agriculture in his state. Thus, unlike the House where only 50 or 60 members truly represent agricultural constituencies, every member of the U.S. Senate has an agricultural constituency. Hence there is one body of the legislature where agriculture is very, very powerful. In the leadership positions in the House are people with very strong ties to agriculture: the Speaker comes from an agricultural state; the Majority Leader was chairman for a long time of the sub-committee that I now work for and comes from an agriculture district; the Majority Whip comes from California, an agriculture district; and the Minority Leader comes from the heart of Illinois, an agriculture district. So whereas in the Senate everybody has an agricultural constituency, the same thing is not true of the House. However, in the House people in the leadership positions have very strong ties to agriculture and they are able to work with the farm lobby and play upon these strong emotional and political allegiances in the U.S. public towards agriculture.

I think there is no better example of that than what happened last summer with the drought bill that we passed. Every day in Washington, when you turned on the news, the lead story was the drought in the midwest. It probably got more media attention in Washington, D.C. than it did in Witchita, Kansas and every day it was on the front page of the *Washington Post*. That's the newspaper that members of Congress look at every day, whether they be from Idaho or Illinois, and which sets the political agenda every day. A daily story about the drought and how terrible it is and how serious the damage is, creates a political atmosphere of support, of wanting to do something. As a result, barely six months after it had cut $2.5 billion out of the agriculture budget, Congress turned around and within a month from the time that my colleagues and I sat down one afternoon and scratched a few things on a legal pad about what the drought bill would be, the President was at the White House signing a $4 billion piece of legislation. I think it's unprecedented in its size, in the sum of money, and how quickly Congress moved. That's an indication of how strong the U.S. farm lobby is today.

As I said, that happened only six months after Congress had cut $2.5 billion from the agriculture budget. You had this curious dichotomy of, on the one hand, a strong feeling towards farmers and agriculture policy, and then, on the other hand, an equally strong and countervailing force that, if we are going to do something about federal spending in the U.S. and the deficit, we have got to do something about agriculture. We saw the latter in President Reagan's last budget in which agriculture was targeted as the leader for budget cuts. Presumably when President Bush releases his budget, agriculture will be right there at the top of the spending cuts. House members who are from New York or Detroit or Dallas, who have seen for eight years their housing, education, highway, and environmental programs cut to the bone, while agriculture spending has risen, are saying "enough is enough". They want agriculture to share the burden. And so you have this curious clash of this reservoir of political support and strength for farmers and this belief that agricultural spending must be trimmed. You could therefore say that agriculture is on the defensive, has been on the defensive for the last couple of years, and unquestionably will be on the defensive for the next couple of years.

What does this all mean for the GATT talks? Don Knoerr talked a little bit about the sensitivity of the Canadian farmer to what's going on in GATT, to what the Canadian government's goals and objectives ought to be in GATT. I would daresay that American farmers and American farm groups do not have any idea what their goals and objectives are in GATT. That's probably a gross overestimation because there are people who spend their time thinking about it. But if I go out to Kansas and I talk about the GATT talks to a group of wheat growers who love their export enhancement program (EEP) and want to see that kept going, and who live and die by that program, and talk to them about the impact of the elimination of subsides on the EEP, they will start to make the connection. But I don't believe that they spend a great deal of time thinking about it. Consequently, given that Congress is a reactive body, which very rarely takes the initiative and gets out front and leads, but reacts and responds to the pressures and interests which percolate up from its constituents, without a great deal of pressure and interest percolating up from agriculture constituents, the GATT talks have sort of been a non-issue in Washington. The competing pressures on Congressional members, not only in terms of agriculture versus non-agriculture but all the rest of their constituencies, means there is just no time for them to sit down and think about what we ought to be doing, what our goals and objectives ought to be in the GATT talks and how we ought to trade this policy off against this policy and whether we ought to do this or that. Only when U.S. negotiators come back from the GATT talks with a deal initialled and come up to Capital Hill and say, okay now you are going to have to change all these laws so we can live up to our agreement, will the roof blow off. But that's the way it is in the Congress. That's the way the system is, right or wrong, good or bad. That's why it's incumbent upon people like yourselves who do have the luxury of time to contemplate these things, to be persistent, to try to make some judgments, to make some recommendations, and to lay out the options for those of us like myself and the people that I work for so that we can be better informed. I would just stop with that and emphasize again that Congress is a very evolutionary body. Congress does not do anything revolutionary. It moves very, very slowly and like the whole domestic political institutional structure in the U.S. is very conservative. All the pressures are to keep the status quo. That's why domestically for the U.S. the GATT process is going to be a very wrenching experience. It comes at a time when agriculture is going to be on the defensive in terms of the budget, and when we will be writing a new farm bill which may or may not have to accommodate what goes on in negotiating tables in Geneva. So it's going to be a difficult time and the pressures will be severe.

Part Four

Forging a Consensus: Politically Feasible Avenues

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The Environment Post Mid-Term Review

Ed Rossmiller

My comments will centre on where we are likely to go, or at least where I see the environment standing after Montreal for the potential for the progress in the GATT.

We have had some very interesting and useful insights in the country presentations of the last day. They spelled out the different approaches to the GATT negotiations by some selected countries, the different objectives and the constraints to country policy reform in the context of the GATT, and the very different situations, both politically and economically, in the countries discussed. They were probably representative of most of the countries in GATT, in terms of the differences in approaches and objectives.

A common thread running through those papers, and what has been a common sense of direction and rhetoric over the past several years on the part of many countries, is that during the 1980s many countries have recognized the need for domestic agricultural policy reform for domestic reasons. And that, happily, plays right into the GATT negotiations during the Uruguay Round.

That's my first of several reasons for optimism that these negotiations, in the end, will bear fruit. Of course, the just ended U.S. administration would like to take the credit for this reason. Former President Reagan in a recent speech attempting to shape the way that history will view his administration said, "we set out to change the nation and we managed to change the world." In my view it had nothing to do with the U.S. and the Reagan ideology of the past eight years. Countries independently recognized that particular policies were costing dearly and were not achieving the objectives that they were designed to achieve. That's a very powerful basis for the continuation and ultimately positive result of the GATT negotiations.

My second reason for optimism is that the United States, Canada and the European Community all have new administrations since the mid-term review. I'm not sure that I can comment too much on what the implication of that is for Canada or for the EC, but in the U.S. we are already seeing evidence that our new administration will be driven less by ideology and more by pragmatism. I think it is positive that we will have in all three new administrations some new personalities that are not wedded to some of the historical perspectives of the last several years. And we have some of the old faces in different chairs. Clayton Yeutter, for example, is likely to gain a whole new perspective on agriculture and the GATT from his new chair as Secretary of Agriculture. I certainly agree with Greg Frazier that Secretary Yeutter will likely take a good share of the agricultural trade agenda with him from USTR. I will go one step further and suggest perhaps that with Jim Baker at the State Department, with his very strong interest in international economic policy, and that with Carla Hills, who is not really a household word on trade matters as the new U.S. Trade Representative, the agenda will probably shift to Agriculture and to State, away from USTR. That is, unless, of course, Carla Hills is a very quick study and gets on top of the trade issues very quickly. If the agenda does move to State then the problem that Ford Runge was talking about, the dilemma that Carla Hills may have, becomes less important.

Third, given the fundamental differences between the United States and the European Community, it was probably a very positive thing that the mid-term review failed. Failure was much better than a papering over of the differences, which may have then taken the rest of the negotiation to interpret in terms of a non-agreement. Basically the fundamental disagreement is over how to deal with trade distortions. The U.S. proposal is essentially saying, let's pull government intervention totally out of the market and remove the government as a source of distortion in resource allocation. If you remove the resource allocation distortions that are caused by governments in the market, you automatically, by default, remove the trade distortions. That's a very powerful efficiency argument. The European Community, on the other hand, is saying, well, as a matter of fact, we like some of our resource allocation distortions; we have a set of social objectives that we can only satisfy if we distort the market to some extent and thus distort resource allocations. We are, however, willing to negotiate about reducing the trade distorting effects of those resource allocation distortions that are caused by government intervention.

Those divergent views raise a very fundamental question as to what the GATT negotiations are all about. The GATT will have to decide in the end whether it wants to, or can, have authority over resource allocation decisions with respect to policy or merely over trade distortions. This basic issue is still very much under debate.

Fourth, the stand at Montreal by the less developed countries, joined by the Cairns Group and importantly the EC, that without agreement on agriculture there would be no ratification of agreements in the other sectors, was a very significant and positive act for two reasons. First, it raises the cross sectoral pressures much earlier than in past negotiations. Those who were interested in forward movement in other areas, for example on services, such as the banking industry, had to say, we are not too happy with the way that the agricultural negotiation went because now it's meddling in our affairs. Those kinds of cross sectoral pressures are another factor in moving the agricultural negotiations forward to a positive conclusion. Secondly, the fact that the EC joined the Cairns Group and the less developed countries in this matter suggests that the EC is indeed very serious about making some progress on agriculture in this Round.

Fifth, the climate that we have seen since Montreal has been positive. The report from Montreal, after the dust settled, was that the negotiators were perhaps much closer than it appeared at the time to an agreement. They may have just ran out of time. Had there been another couple of days, they might have come to an agreement in Montreal. And this is reflected in the positive statements that have been made on both sides of the Atlantic since the mid-term review in December. The U.S. appears willing to rethink its rigid stance, the so-called zero option of eliminating all subsidies and import access barriers within 10 years. The EC appears willing to become serious about a longer-term objective for the negotiations.

Finally, quite apart from the official negotiations, I think that there is evidence that progress and compromise can be agreed among an international group of diverse interests from the food and agricultural system. Bill Miner and I are involved in something called the International Policy Council on Agriculture and Trade. This group of 28 agricultural leaders from 17 countries, developed and developing, exporters and importers, represents farmers, business and academia. It met outside Montreal in September before the mid-term review and produced a communique that suggested both short-term measures, including a freeze on trade distorting support and two years of 10 per cent reductions in that support to show seriousness of commitment, and a long-term target of at least 50 per cent reduction in trade distorting support over an agreed time period. The communique was sent to top government officials in some 25 countries and the response from many of those officials, in letters back to the Secretariat, was overwhelmingly positive. While it did not make much difference at Montreal it does say that realistic agreement is possible.

There are some negatives to be sure. The North American drought has taken off the budget pressure. But even that can be positive if negotiators would seize the opportunity of higher market prices to freeze the lower levels of expenditure on export subsidies that both the U.S. and the EC are committing today. The U.S./EC hormone issue, no matter how efforts are made to compartmentalize it away from the GATT negotiations, cannot help but spill over and poison the GATT negotiating waters unless it is resolved very soon.

And finally I have some concern that our political agendas may be moving away from the GATT and trade issues. In the U.S., we have a 1985 farm bill that runs out and has to be renewed by the end of 1990 under current legislation. There is some talk in Washington about the possibility that the 1985 farm bill could be extended for a year and the debate on the next farm bill will take place in 1991. The reason for this possible delay is that several Senators on the Senate Agriculture Committee are up for re-election in 1990, and they really don't want to be trying to get re-elected at the same time they are debating farm policy.

At least some tinkering with the 1985 legislation will be necessary this year because of the budget situation. Budget cuts in the order of $25-30 billion are estimated to be needed to avoid a sequester under the Gramm-Rudman-Hollings Budget Reduction Act. Estimates of agriculture's share of this reduction range from $1 billion to $2 billion. Major debate is likely on how these cuts will be accomplished. The point is that with the farm bill looming there is going to be an injection of energy into that arena, which may detract from the intensity with which we have been going about negotiating in the Uruguay Round. Similarly in the European Community, a shift in priorities is already in evidence toward implementation of the 1992 market harmonization. A great deal of the European Community's energies and resources will be absorbed in bringing that program online and on schedule. I can't speak for the possible shifting of the agenda in Canada or in other countries, but I suspect that given the intensity with which there has been work on the trade negotiations in the GATT over the last couple of years, it's not likely that we will be able to maintain that intensity over the next couple of years.

In sum, I expect the negotiation to result in some positive steps in the direction of trade liberalization. While those steps are not likely to be large or revolutionary, they will establish the direction and the point of departure for future negotiations.

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Forging a Consensus: The Big Boys Need a Push

Bill Miner

We are all engaged in trying to build a political consensus around sensible policies for agriculture in the sphere of trade. How best to do it is the purpose of this seminar. I doubt if there is any single viable method but there are some necessary ingredients. In the short run the need for policy adjustments result from conflicts and these are mainly economic. (I don't pretend to be a practising economist so I will try to rise above the debate of whether economists or political scientists have greater influence—partly because the influence of both pales beside the influence of farm lobby groups as the record so clearly demonstrates.) I believe that economic constraints shape the agenda for feasible policy choices. The interests of the various pressure groups are usually quite transparent and predictable. There may be room for broad political choices—are we pursuing a policy through a bilateral arrangement or a multilateral one, both, or neither? Are we searching for a solution that requires greater government intervention or less? Here I believe that broad political directions are useful—either explicitly from the government or implicitly as a result of global or regional developments. But it is necessary to move to the international level and to search for policies that are compatible. If they are not compatible they will not be sustainable. If history has taught economists and political scientists anything, it is that policies can no longer avoid global influences in agriculture or other major areas—if this were ever possible. Policies designed on a closed market concept in agriculture will eventually require modification. Where open trade conflicts exist, the costs of adjustment are enormous as the 1980s are demonstrating. Europe and North America have contained their confrontations over farm trade since the origins of the CAP with political restraint. But this is no longer possible. Now the political message from the Summits, the OECD Ministers and Punta del Este is to resolve the conflicts. The Latin American (developing) countries are helping to deliver this message by refusing to allow other issues to proceed without progress on farm trade. The Uruguay Round is at an impasse and agricultural trade conflicts are the main reason for this situation.

In developing viable policies, what seems to be needed is some analysis that brings out the facts—in as objective a manner as possible. This work needs to be examined by informed analysts or policy workers who understand and can reflect the key interests at play. This, of course, includes non-economic considerations. This work is best done without too much public debate. Once the analysis is complete and reasonably balanced, it needs to be considered at the policy level of the key players. It may be usefully put out for public debate—or there may be a need for some negotiation first. But the clientele must be informed. Unfortunately too many issues, at least in Canada, seem to move to a stage of trench warfare before it is possible to have a constructive and informed debate. I thought we were getting better at this but events relating to the Crow Rate debate and the Free Trade debate indicate that we have a long way to go.

In the time remaining I would like to address four issues:

(i) the question of special treatment of agriculture and the GATT—here I believe the relevant question is "has the special case approach worked well for agriculture?" I believe the answer is "no" and I will try to explain my reasons.

(ii) the question of free trade (or the total elimination of policies that limit or distort trade) vs. managed markets.

(iii) politically feasible policies; and

(iv) breaking the impasse after Montreal.

In all of this I am guided by the experience that governments and the groups they represent change policies primarily for domestic reasons. Of course global influences are part of the considerations, and trade negotiations or outside policy pressures play a role, but these are usually secondary. We all try to convince ourselves that it is someone else's fault that we must accept change but usually the root causes of policy problems lie closer to home.

The debate over the political and economic rationale for treating agriculture in a special manner under the General Agreement on Tariffs and Trade predates the Agreement itself. Many reasons have been advanced to support exceptional treatment for agriculture and food industries with respect to trade policies relating to the cyclical and seasonal characteristics of agricultural production, the importance of food security, the role of the rural environment in strengthening the social fabric of the country, and the economic circumstances of farm communities. All countries and all governments appear to have made this case and the history of agriculture in the GATT clearly demonstrates that agriculture has been treated as a special case. The key question in judging whether a consensus for fundamental change can be forged in the Uruguay Round is whether governments and the interest groups that they represent are now convinced that the situation has changed. In other words, is this really what agriculture wants and needs?

Bringing Agriculture into GATT

It is not difficult to understand why attempts to restore order and to liberalize trade in farm products have not been successful. After all, for 40 years, governments have largely failed to bring agriculture under GATT rules and disciplines. This is so because governments have been unwilling to accept international disciplines with respect to their domestic agricultural programs. In principle, the GATT rules on border measures do apply to all goods entering world trade. But the GATT is riddled with exceptions, waivers and grandfather clauses with respect to agriculture because governments have insisted on retaining the right to take action at the border to protect internal agricultural support systems. They have also retained wide flexibility regarding the use of export subsidies and other forms of assistance to get rid of surplus production. To unravel this situation, and negotiate stronger, enforceable international rules to govern agricultural trade requires that governments place their domestic policies on the negotiating table for all major traded commodities—at least to the extent that these policies distort or damage trade.

Similarly, attempts to manage international markets for agricultural commodities have largely failed in the past because more fundamental changes in national policies were required. The existing international commodity agreements that are operational are market-oriented and rely on export quotas or buffer stock mechanisms to influence markets and prices. But these agreements have not been successful in freeing up trade or bringing disciplines to bear on the trade effects of national farm programs. Attempts have failed to find ways to co-ordinate policies.

In the current negotiating round, the main trading countries concluded that a focus on individual commodities would detract from efforts to deal with the general problems of subsidies that are distorting trade and the wide range of border restrictions that are linked to internal support systems. It has been generally recognized that a comprehensive approach covering all of the major commodity sectors and all domestic and border policies that distort trade is necessary if the negotiation is to succeed. How else can we address the issues of the U.S. waiver and the CAP?

Thus to the surprise of many, the 1986 Punta del Este Declaration that launched the Uruguay Round commits GATT countries to a negotiation covering both border and domestic policies which adversely affect agricultural trade and to deal with all of the main traded commodities. Furthermore, governments in the industrial countries at least seem to recognize that major reforms of agricultural policies are needed even though they do not agree on the specific long term goals of this reform. Governments also recognize that it is vastly better to undertake basic farm policy reform together, on a comprehensive basis, in a multilateral trade negotiation. They realize that to some extent all industrial countries are "sinners" and the negotiations will fail unless they are all prepared to share in the adjustment process. Hence for the first time the basis for a serious negotiation on agriculture in the GATT appears to exist.

So, despite the differences between the United States and the European Community over the long-term objectives of reform, and the impasse in Montreal, the direction of policy change seems to be agreed. And in many countries it is already underway. The United States has adjusted policies to remove excess resources in the dairy and grains sectors and to set support prices more in line with world market levels. The European Community has also taken difficult decisions to reduce surplus production in several commodities including dairy and to bring subsidy outlays under greater control. New Zealand has virtually removed all subsidies and other forms of interventions in agriculture. Many developing countries are liberalizing trade, reducing exchange rate distortions and bringing prices more in line with world markets as part of debt restructuring programs.

Therefore, despite the set-back in Montreal, the Uruguay Round may be the first GATT trade negotiation to come to grips with the fundamental problems affecting agricultural trade and to reach agreements and write rules to reduce these difficulties. Barry Wilson and Peter Finkle talked about an assault on the special status of agriculture. I believe it is an acknowledgement that the world in changing around us. It stung a bit to read about the "Canadian tradition to claim world superiority and then line up behind protectionist support measures". Canadian farmers need help largely because other countries do not play the game fairly.

Free Trade or Managed Markets

Many people continue to argue that free trade in agriculture is not a realistic option at least in this Round. They point out that governments have been pursuing this objective for many years in GATT for manufactured goods, and still have some way to go. Still this is the objective on the industrial side and Mr. Yeutter, the leader of the U.S. delegation in Montreal, asked why this is not a reasonable objective for agriculture. Although some consider that freer trade will undermine food security, most of the evidence indicates that world markets will become more stable and farmers will better respond to market needs if systems are more flexible and open. The objective of progressively bringing agriculture fully under the trading rules of the GATT, as for other traded goods, may provide an acceptable long-term goal for the negotiations. However, governments are unlikely to leave their sensitive food policies entirely up to market forces despite the apparent consensus that a major shift in that direction is needed. Is this throwing away its special status or protecting it? In fact, it is responding to reality as there will continue to be forms of intervention.

But neither is the management of agricultural production and trade by government regulations and agencies a viable long term option. Farm policies, regardless of their nature, must be responsive to national and global trends in technology, production use, and international trade and financing. Many governments have moved in the last decade to increase the role of market forces in agriculture in order to lower costs, remove distortions in resource use and stimulate diversification and development. Even in state trading countries there are moves to loosen state controls and free up internal markets. Some African countries are taking tough but necessary steps to reduce state intervention, liberalize trade and stimulate their agricultural sectors. There are numerous examples of a shift in policies toward greater flexibility and market orientation in industrial, developing and centrally planned economies.

Adjusting policies towards greater market orientation does not require that all existing programs be dismantled or that farmers' incomes be left entirely to market forces. It does not mean that we must ignore policies to respond to the unique characteristics of agriculture. National agricultural services such as research, grading, extension, food aid and assistance from natural disasters do not distort trade. Similarly, most framework measures providing for rural development, conservation and environmental improvements, general infrastructural assistance and direct income transfers are trade-neutral. Programs providing safety net protection, market stabilization, resource inventories, orderly marketing and income insurance have limited effects on trade provided they are actuarially sound and geared to longer term market clearing levels. It is the programs that provide price and income support based on commodities and direct trade measures to restrict imports and subsidize exports that are primarily responsible for the distortions and trade difficulties. For both national and international reasons, these policies should be modified. Differences are likely to persist over the extent and speed of agricultural policy reform but it is extremely important to find a way to begin the multilateral process. The EC proposal for negotiating agriculture and developments in Montreal make it clear that the Community will stop short of total elimination of protection for its farmers despite its willingness to negotiate reductions. The negotiation of strong and enforceable GATT rules and disciplines is essential to give governments confidence that mutually agreed policy adjustments are secure and to avoid the recurrence of serious trade conflicts.

Developments over the past decade indicate that agricultural policy reform is moving in the direction of gradually linking domestic and world markets so that producers and consumers in all countries will take part in the adjustments to international market conditions. In reality, governments and farm groups have little choice. You may influence the pace but not the direction. Increasingly this is being accompanied by replacement of market interventions by other forms of structural, regional and environmental support and farm safety net programs that do not distort production and trade.[1]

Politically Feasible Options

In May 1988, 29 professionals from 17 countries issued a Policy Statement on how to build a consensus among 20 or more governments on how to reform policies that affect world agricultural trade.[2] Let me review the principal findings of this group. Their statement contains recommendations for long-term reform of agricultural and trade policies and a framework for progress in 1988. In an effort to bridge the differences among the approaches of various countries, it seeks to encompass the principal elements of the key positions by setting out guidelines and specific proposals for the negotiations. The guidelines proposed are the following:

- all national measures which restrict or distort agricultural trade, stimulate excess production, or limit consumption should be on the table;
- there should be no increase in policies that limit trade or distort production or consumption;
- agreement should be reached on those programs which have minimal impact on trade and therefore may be utilized;
- there should be a major reduction in all measures that adversely affect trade to allow market signals to guide resource allocation and trade;
- all remaining measures that adversely affect trade should be subject to precise and enforceable GATT rules and disciplines;
- reforms expected of developing countries must take into account the stage of their economic development, the need for suitable transitional arrangements, and specific problems such as widespread malnutrition; and
- countries should be free to choose their agricultural policies provided they do not limit or distort trade.

This approach was designed to respond to the differences in national systems and the broader considerations that influence farm and trade policies.

The Impasse

The suspension of the TNC Meeting in Montreal signalled very serious differences between the United States and the European Community over future agricultural policies but there are encouraging signs that the principal trading countries are committed to finding a way out of the impasse. The European Commission came to Montreal with representation at the ministerial level, indicating that the Community is seriously pursuing a positive result and has some policy flexibility. The United States delegation included bi-partisan Congressional representation to bridge the gap between administrations and Congress, again showing Washington's desire to make progress in agriculture. Other countries came prepared to reach agreement on agriculture and raised no roadblocks in the discussions.

Although the United States delegation pressed persistently in Montreal for a strong commitment to end trade-distorting agricultural subsidies and protective measures at borders, it demonstrated some willingness to soften its stand. Its position was open with respect to the time-frame for removal and the United States showed some flexibility on the definitions of policies to be excluded from the undertakings and in the language of commitments. However, the U.S. delegation remained firm in its insistence on a substantial commitment to eliminate eventually all trade-distorting policies.

The Community refused to agree to this objective for agriculture, presumably because, in effect, it would represent a hard political commitment to remove eventually fundamental elements of the Common Agricultural Policy (CAP). The CAP is considered to be a central pillar of the European Community itself and hence it is not surprising that the elimination of an integral component is not acceptable. The Community delegation was ready to place a freeze on all current measures that distort trade and to begin negotiations of substantial reductions. But it is not yet possible to determine if the Community will accept a substantial long-term commitment. Indeed, it appears that the Community has not established a position in relation to basic changes in the CAP.

The Canadian delegation and other Cairns Group countries worked for a compromise that would represent a solid, long-term commitment to agricultural policy reform and provide a basis for immediate steps to freeze and progressively reduce offending policies. The Australian delegation displayed considerable flexibility from the beginning, demonstrating the importance they attach to obtaining early results. Attempts were made to bridge the differences by using alternative wording, but these compromises were not acceptable to either side. Japan stood aside from the confrontation and Canada, as host, and the Cairns Group appeared to be unwillingly or unable to take the lead in pushing for a positive result. Once again, it was left to the United States and the European Community to break the impasse.

The two countries failed to reach a conclusion on agriculture because of fundamental differences in long-term approaches to agricultural policies. Few expected them to reach agreement on long-term goals for agricultural policies. Their differences in farm structures, marketing philosophies and domestic policies are too great to be overcome at the mid-point in the negotiations, let alone at the end of the Round. But there were reasons to expect them to agree on general goals for the negotiation to allow the talks to proceed. They were closer than most admit but there was insufficient time and pressure on either the United States or the European Community to settle at that time. Even the last minute refusal by the Latin Americans, with tacit support from additional Cairns Group members, to allow other areas to proceed where progress had been made, was either too late or provided insufficient leverage to force a result. The Community did not appear to have a specific long-term position and certainly could not accept language that would imply the eventual dismantlement of the CAP. And without a major commitment from the Europeans to fundamental changes in the CAP, the United States could not ask its agricultural groups to forego policy flexibility under the 1985 Farm Security Act, to prejudice discussions leading up to a new Farm Bill, and to tie its hands with respect to retaliating against the policies of others.

There was no back-sliding in Montreal on commitments to agricultural trade reforms. Policy adjustments underway in the Community, the United States, Japan and a number of other countries are already moving in this direction.

An Opportunity to Alter Positions

Changes in administrations and ministerial portfolios in key countries provide an opportunity to overcome the road-blocks facing agriculture. In the United States, the appointment of Carla Hills as Special Trade Representative and of Clayton Yeutter, former Special Trade Representative, as Secretary of Agriculture are a chance for adjustments in the U.S. negotiating positions. In appointing Yeutter, President-elect Bush indicated the U.S. intention to pursue its international objectives for agriculture. But he also signalled some greater flexibility with respect to the U.S. goal of eliminating all trade-distorting subsidies. Yeutter exhibited a greater willingness in Montreal to work for a compromise on agriculture. Nonetheless, he has persistently pursued a meaningful commitment from the Community to the eventual removal of trade-distorting policies. Furthermore his scope for flexibility will be severely constrained by the need to obtain approval by Congress of any firm U.S. commitments for agriculture. The bipartisan Congressional representation in Montreal emphasized publicly that adequate support for U.S. agriculture would continue in the event that the negotiations fail to obtain firm guarantees of agricultural trade reform from U.S. competitors. Any agreement by the new Administration to reduce support for the U.S. farm sector without hard commitments from the European Community on long-term reform would not only trigger strong protests from U.S. farm lobby groups but would toughen the approaches in Congress to a new Farm Bill.

New appointments in the European Commission also provide an opportunity for changes in policy direction. The former EC Agricultural Commissioner, Frans Andriessen, has taken over the trade portfolio. On assuming office he signalled that the Community is ready to ease its position on agriculture but emphasized that others must do likewise. The new Agriculture Commissioner, Ray MacSharry from Ireland, has already indicated his intention to continue the restrictive farm price policies of his predecessor. Following five years of virtually open warfare with the United States over agricultural trade, the Commission will be pursuing a more constructive and stable relationship. Both Andriessen and Yeutter have strong personal interests in a positive outcome for the agricultural negotiations and for the Uruguay Round. But Andriessen will be constrained not only by his firm belief that the Community has already made substantial agricultural policy adjustments with no recognition or reciprocity from the United States, but by the mandate for agriculture of the Council of Ministers. A new mandate is possible but not to the point of removing the pillars of CAP. The Council is preoccupied with working out the internal arrangements for agriculture, including the integration into the Common Market of the farm sectors of Spain and Portugal, and the more pressing problems of southern agricultural producers. The goal of establishing an integrated market by 1992 has some relevance to agriculture. The member states may be unwilling at this point to consider far-reaching commitments to alter fundamental elements of the CAP, particularly in the wake of the difficult financial decisions taken earlier this year and the need to complete an integrated common market by 1992.

The Canadian Government could also now be in a better position to take an aggressive stand on agricultural negotiations, following its re-election. Although lacking sufficient leverage on its own to force the United States and the Community into a compromise, Canada could, with the support of the Cairns Group, propose specific long-term negotiating goals for agriculture to stimulate a more constructive dialogue. For example, with Canadian leadership, the Cairns Group could propose a schedule of adjustments to specific categories of policy instruments that distort and limit trade, combined with precise recommendations to achieve a progressive strengthening and application of GATT rules to agricultural trade. This would, of course, require a willingness to accept explicitly disciplines on the more sensitive Canadian farm policies, including the supply-managed sectors. An approach of this kind could be combined with the U.S. proposal to eventually convert all non-tariff barriers to tariffs and to negotiate reductions over time. It would allow for a continuation of a maximum level of protection for more sensitive sectors. Such an initiative could provide an acceptable fall-back for the United States in relation to its zero option, and could demonstrate to the Europeans that long-term goals can be established that are consistent with retaining an agreed level of protection for some sectors under prescribed conditions.

Similarly, other members of the Cairns Group could indicate their willingness to adjust certain policies in protected areas in a concerted reduction program. Indeed, the Cairns Group countries appeared to lose the initiative in Montreal as a source of viable, alternative approaches. Their proposals were much more complete and detailed with respect to shorter term actions. While the Chairman's report contained much of the Cairns Group proposal, it proved to be an inadequate basis for progress with respect to long-term goals.

Although Japan has a stake in a positive outcome for agriculture in the Uruguay Round and played a constructive role in the preparations for Montreal, it has neither the leverage nor the political interest in taking initiatives to overcome the difficulties. Its low-key approach in Montreal was evidence of its lack of willingness to take the lead in this area. However, Japan could probably be persuaded to reinforce a Cairns Group initiative aimed at breaking the impasse.

The Big Boys Need A Push

When viewed from an agricultural perspective alone, the prospects of developing an acceptable approach to agricultural negotiations by April through political consultations between the two principal protagonists appear less optimistic. In the case of the United States, the attitude of Congress, backed up by the positions of the farm lobby groups, will be a major constraint. The farm groups do not wish to depart from the hardline U.S. negotiating position and thus compromise the support and the competitive benefits that are obtained under the 1985 Farm Security Act, or to limit their flexibility to pursue similar or stronger provisions in a new Farm Bill. They also wish to keep open the option of maintaining or increasing pressures on the European Community to reduce its subsidies and protection at least until 1990. Although many U.S. farm groups consider themselves to be competitive under fair trading conditions and support a major result for agriculture in the Round, they will insist on a strong commitment from the Community to reduce subsidies and to provide greater access before agreeing to give up any benefits or flexibility. The less competitive sectors appear to support the ambitious U.S. position, presumably because they are certain it cannot be negotiated, and they will doubtless continue to press to maintain the hard U.S. stand. Many farm groups seem to recognize that a more modest outcome is probable and in their long-term interests. However, they have not worked out an acceptable fall-back position. Similarly, key Congressional members who appear sceptical of past U.S. efforts to liberalize farm trade, are likely to press for concrete evidence of major concessions by the Community and others, before supporting multilateral constraints on their legislative options. Most members of Congress appreciate that limits to farm programs are necessary for both fiscal and trade reasons but there is little pressure on them to act at this time. The past Administration staked out a hard position that was clearly not negotiable and does not appear to have developed any acceptable fall-back.

Within the Community, there is limited support in the agricultural sector for additional basic policy reform. The Community is taking some steps to increase the influence of the internal market on production and to introduce strong budgetary disciplines. It is relying increasingly on structural policies to shape its agriculture and rural development. The new financial arrangements have weakened the CAP intervention systems and farm land values have been eroded. The surplus production problems appear to be under control for now, assisted by recent world market developments. The new Agriculture Commissioner proposals for 1989-90 are for a freeze across-the-board price policy and a tighter intervention regime for cereals to discourage surplus production. There are many more small and marginal farmers in Western Europe than in North America, making adjustments in agriculture more necessary, particularly in Mediterranean countries. But there is strong opposition to increasing the pressures for such adjustments by allowing greater international competition. The E.C. position clearly indicates that the CAP principle of Community preference is being maintained. Although some producer groups acknowledge that the CAP should be modernized, there has been limited public debate over long-term policy adjustments, let alone fundamental changes in the system. For example, there is no evidence that the E.C. farmers are ready to forego the principle of Community preference for agriculture. Those who support agricultural reform appear to favour gradual adjustments without any pre-determined long-term goals. The Commission and influential policy leaders recognize that the underlying policy issues for agriculture will continue and must be addressed. But the Community does not appear ready to assume international leadership of agricultural reforms.

So it appears that outside initiatives to set forth an intermediate position may be needed and the Cairns Group is the only candidate to exercise this option. Although Canada and other Cairns Group countries have not undercut the U.S. position on agricultural trade, most of these countries have sectors which are not internationally competitive and will require some special arrangements for continued protection. They stand to gain overall from a more open trading system and they have the most to lose from a continuation of E.C. and U.S. subsidies and agricultural trade conflicts.

Canada would have to play a leadership role since it is the only member of the Group that must contemplate significant policy adjustments along with the United States, Japan and the European countries. There is a growing recognition in Canada that all sectors must adjust gradually to global market forces, although both federal and provincial governments have yet to acknowledge publicly this need for the supply management sectors. Some sectors, particularly those concerned with grains, oilseeds and red meats are already examining policy options to replace those programs that are commodity specific and are probably distorting trade and resource use in Canada. There are serious concerns over the continuation of export subsidy wars and Canada's ability to keep its export oriented sectors in business.

The remainder of the Cairns Group countries are likely to accept a form of compromise that offers a reasonable commitment to long-term agricultural reform, improved access, and limits on export subsidy competition while allowing some protection to continue for sensitive sectors. Japan and the Nordic countries are likely to adopt a similar stance.

Developing countries in the Cairns Group have a major stake in the outcome of the MTN negotiations. They stand to gain from improvements in access for all products, a reduction in farm subsidies and more orderly agricultural markets. They may continue to block progress in non-agricultural areas of the negotiations to force a resolution of the agricultural impasse, but the developing countries will be under pressure to allow the results for tropical products to be implemented this year. These countries will probably accept any constructive compromise package that contains commitments to discipline export subsidy practices and to negotiate improved conditions of access. The developing country members of the Cairns Group have served notice of their willingness to use the leverage of blocking progress in other areas to achieve results for agriculture. This has introduced a new and important dimension to the agricultural negotiations.

Developments outside agriculture will encourage the United States and the Community to accept compromise language. There is little doubt that the prospect that a failure in agricultural negotiations will actually prevent the Uruguay Round from moving ahead has added a new political urgency to overcoming the impasse. Although the main developed countries, including Canada and Australia, were prepared to proceed without an agricultural result in Montreal, the Latin American Cairns Group countries, were not. Recent reports of an interest by U.S. and E.C. parliamentarians in finding a new system to arbitrate disputes on a bilateral basis may stimulate GATT countries to get on with improving the GATT dispute settlement procedures. It is probable that the importance attached by the United States and the Community to heading off a new round of protectionism, developing an improved system of monitoring trade policies and settling disputes, and negotiating more open conditions for trade in services and the protection of intellectual property rights will stimulate the two protagonists to find an acceptable compromise.

Notes

1. William M. Miner and Dale E. Hathaway (ed.), *World Agricultural Trade: Building a Consensus* (Halifax: Institute for Research on Public Policy and Institute for International Economics, 1988) contains an illustrative list of agriculture policy instruments arranged according to their purposes and relative effects on trade.
2. *Reforming World Agricultural Trade*. A Policy Statement by Twenty-nine Professionals from Seventeen Countries (Washington: Institute for International Economics and Institute for Research on Public Policy, 1988).

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edited by Grace Skogstad and Andrew Fenton Cooper

Agricultural issues have been sources of conflict both internationally and domestically in the 1980s. Internationally, trade barriers and agricultural subsidies have been sources of instability in commodity markets and disputes among governments. Domestically, conflicts have risen among agricultural commodity groups and between primary producers and food processors. Mounting subsidies have strained the fiscal capacity of governments in the industrial countries and environmental concerns have become more intense; both developments have led to increasing controversy over domestic policies relating to the farm sector.

Conflict over agricultural trade has been a source of tension in the international trading system. In particular, agricultural trade issues proved difficult to handle both at the GATT Ministerial Meeting at Punta del Este in September 1986 which launched the Uruguay Round and at the Mid-Term Ministerial Review in Montreal in December 1988. Yet the G-7 Summit Leaders have made repeated pledges to cease agricultural trade conflicts.

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As the Uruguay Round moves towards its conclusion, and as Canada reviews its own agricultural policies, this set of studies can contribute to better understanding of the external and internal dynamics influencing Canadian farm policy and the prospects for our agricultural sector.

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ISBN 0-88645-108-6

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